DOCUMENT RESUME

ED 178 919 CS 205 265

TITLE What Should Be the Future Direction of the Foreign Policy of the United States?: National Debate Topic for High Schools, 1979-1980, Pursuant to Public Law 88-246.
INSTITUTION Library of Congress, Washington, D.C. Congressional Research Service.
REPORT NO CRS-96-17
PUB DATE 79
NOTE 708p.; Not available in paper copy due to marginal legibility of original document
AVAILABLE FROM Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (Stock No. 052-071-00589-7, $9.00)

EDRS PRICE MF04 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS *American Studies; *Debate; *Foreign Policy; *Information Sources; *International Relations; Political Science; Secondary Education

ABSTRACT

This book provides information on the 1979-80 national high school debate topic (United States foreign policy). The volume begins with a group of articles selected to provide an overview of foreign policy considerations and a general context for discussions of the three propositions within the designated topic. The book also contains sections with separate groups of background materials and essays on each of the debate propositions. Other sections provide a selected bibliography, information on how to secure additional material on U. S. foreign policy, and a list of available government publications on the 1979-80 national high school debate topic. (RL)

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Senate / 96th Congress / 1st Session / Document No. 96-17

What Should Be the Future Direction of the Foreign Policy of the United States?

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

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National Debate Topic for High Schools
1979-1980

Pursuant to Public Law 88-246

Compiled by the Congressional Research Service
Library of Congress

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1979
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AN ACT To provide for the preparation and printing of compilation of materials relating to annual national high school and college debate topics

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Librarian of Congress is authorized and directed to prepare compilations [illegible] pertinent excerpts, bibliographical references, and other appropriate [illegible]terials relating to (1) the subject selected annually by the National University Extension Association as the national high school debate topics and (2) the subject selected annually by the American Speech Association as the national college debate topic. In preparing such compilations the Librarian shall include materials which is in his judgment are representative of, and give equal emphasis to, the opposing points of view on the respective topics.

SEC. 2. The compilations on the high school debate topics shall be printed as Senate documents and the compilations on the college debate topics shall be printed as House documents, the cost of which shall be charged to the congressional allotment for printing and binding. Additional copies of such documents may be printed in such quantities and distributed in such manner as the Joint Committee on Printing directs.

Approved December 30, 1963.

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FOREWORD

"What should be the future direction of the foreign policy of the United States?" is the 1979–1980 high school debate topic selected by the National University Extension Service. The three debate propositions that have been designated within this topic are:

Resolved, That the United States should significantly change its foreign trade policy;

Resolved, That the United States should significantly reduce its public and private distribution of weapons to foreign countries; and

Resolved, That the United States should significantly reduce its foreign assistance programs to totalitarian governments.

This volume begins with a group of articles selected to provide an overview of foreign policy considerations and a general context for discussions of the three propositions. It also contains separate groups of background materials and essays on each of the debate propositions. In choosing items for the collection and for the bibliography, the Congressional Research Service (CRS) attempted to sample the wide spectrum of opinions reflected in current literature on these issues. No preference for any policy is indicated by the selection or positioning of articles herein, nor should one infer CRS disapproval of any policy or article not included.

Staff members [illegible] the Foreign Affairs and National Defense Division, Economics Division, and Library Services Division of CRS cooperated in the compilation of these materials. Robert Shuey coordinated the collection with the assistance of Julia Carlson, who also prepared the bibilography, notes, and information on additional resources. George Holliday, with assistance from Vladimir Pregelj, Raymond Ahearn, Arlene Wilson, Jeffrey Brookstone, and William Gigax, selected materials on the trade issue. Vita Bite and Jeffrey Brookstone helped select articles for the section on foreign assistance, and Robert Shuey, with the advice of Richard Grimmett, selected materials on arms transfers. Arnold Bellefontaine and James Barker of CRS, helped in the administration of the project.

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Good luck to each debater in researching your topic and presenting your arguments.

Gilbert Gude,
Director, Congressional Research Service.

INTRODUCTION

This manual is designed to facilitate research preparations for the 1979–80 debates. Following is information to help the debater make full use of the materials included.

The first group of articles includes several that address all the debate propositions from a broad perspective and may provide some useful concepts and data.

In a few cases, articles included in one of the three sections on the individual debate propositions are also applicable to another proposition. For instance, some articles that discuss U.S. arms transfers also apply to discussions of foreign aid since many arms transfers qualify as foreign aid. Similarly, there is some overlap between the four sections of the bibliography, especially between the section on the general debate topic and the three sections on the debate propositions.

U.S. Government documents listed in the bibliography may be found in most U.S. Government depository libraries which can be identified by your local public library. The Library of Congress cannot distribute copies of these or other materials to debaters.

Suggestions are included at the end of this volume on additional resources. Finally, there is included a list of relevant publications that are available for purchase from the Superintendent of Documents, Government Printing Office.

If several individuals wish to use the material in this volume, entire sections, articles, or pages can be removed easily by creasing the pages at the spine, then pulling them out.

What Should Be the Future Direction of the Foreign Policy of the United States?

This year's national high school debate topic is the subject of many essays and much discussion in America. To a large extent, our future foreign policy will be the product of past and present relations between the United States and other countries; future political, military, and economic activities throughout the world; and changes in the world's physical environment, cultural systems, and technological capabilities. However, as one of the most powerful actors in the community of nations, and as a matter of national self interest, it is incumbent on the United States to exercise initiative in planning the course of its foreign policy.

There are many policy alternatives available to guide this country's interactions with allied, communist, and nonaligned states, with wealthy industrialized nations, oil rich countries, developing states, and the very poor countries of the world. In choosing the nation's course, our leaders must weigh political, military, economic, social, and psychological considerations, and are expected to incorporate ethical as well as pragmatic principles.

The following articles discuss these and other factors involved in the formulation of national goals, strategies, and programs, and provide a variety of normative views on the proper future direction of U.S. foreign policy.

America's Role in a Turbulent World *

I remember when I first came to Tech, the entire world was at war. Our nation was under attack on two fronts and was desperately gearing up for a total war effort that we had not known since we fought each other in the 1860's.

In 1942–43, it was not yet a time for victories for the United States nor for our allies, and many people feared that Western democracies might be overwhelmed. We now face a very different world from the world in which I came of age. The old empires are gone, and the maps are covered with new and developing nations with names that we had then never heard.

But one thing has not changed as much as I had hoped. It is still a world of danger, a world in which democracy and freedom are still challenged, a world in which peace must be rewon day by day.

Too many people still lack the simplest necessities of life, and too many are deprived of the most basic human rights. As the events of recent days have shown, peace remains a fragile thing, vulnerable to assaults from all sides.

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*Text of speech by President Jimmy Carter at the Georgia Institute of Technology in Atlanta on February 20, 1979. Department of State Bulletin, v. 79, March 1979: 21–23.

Disturbances in Iran, the western Indian Ocean, and in Southeast Asia are a challenge to our determination and our leadership. They underscore the importance of strength in our national defenses, wisdom in our diplomacy, and steadfastness in the pursuit of arms control and peace.

I want to speak to you today about America's purpose in this world of change and turbulence.

Ever since the end of the Second World War, the United States has been the leader in moving our world closer to a stable peace and genuine security. We have the world's strongest economy; we have the world's strongest military forces; and we share burdens of mutual defense with friends abroad whose security and prosperity are as vital to us as to themselves.

With our strong allies, we have succeeded in preventing a global war for more than one-third of a century—the longest period of general peace in modern times. And as President of the United States, I am determined to keep our nation at peace.

We help to sustain a world trading and monetary system that has brought greater prosperity to more of the world's people than ever before in history.

We are working to resolve conflicts among other nations so that each can develop its own future in independence and peace. And we have helped to maintain the conditions in which more than 100 new nations have come into being and in which human hope—and its fulfillment—has taken a revolutionary leap forward.

In short, we in the United States provide the bedrock of global security and economic advance in a world of unprecedented change and conflict. In such a world America has four fundamental security responsibilities: to provide for our own nation's strength and safety; to stand by our allies and our friends; to support national independence and integrity of other nations; and to work diligently for peace.

We do not oppose change. Many of the political currents sweeping the world express a desire that we share—the desire for a world in which the legitimate aspirations of nations and individuals have a greater chance for fulfillment.

The United States cannot control events within other nations. A few years ago, we tried this and we failed. But we recognized as inevitable that the uncertainty and the turmoil that come with change can have its darker side as well. We saw this in a senseless act of violence last week in Afghanistan, when a brave and good man—Ambassador Adolph Dubs—gave his life in the performance of his duty as a representative of the United States. As we meet here today at Georgia Tech—enjoying the blessings of freedom and peace—we must remember that we are indebted for those blessings to the sacrifice of men and women like Spike Dubs.

We also see the darker side of change when countries in turbulence provide opportunities for exploitation by the outsiders who seek not to advance human aims but rather to extend their own power and their own position at the expense of others.

IRAN

As I speak to you today, the country of Iran—with which we have had close relations for the last 30 years—is in revolution. It has been our hope that Iran could modernize without deep internal conflicts, and we sought to encourage that effort by supporting its government, by urging internal change toward progress and democracy, and by helping to provide a background of regional stability.

The revolution in Iran is a product of deep social, political, religious, and economic factors growing out of the history of Iran itself. Those who argue that the United States should or could intervene directly to thwart these events are wrong about the realities of Iran. So, too, are those who spout propaganda that protecting our own citizens is tantamount to direct intervention.

We have not and we will not intervene in Iran, yet the future of Iran continues ot be of deep concern to us and to our friends and allies. It is an important nation in a critical part of the world; an immediate neighbor of the Soviet Union; a major oil producer that also sits beside the principal artery for most of the world's trade in oil. And it is still a significant potential force for stability and progress in the region.

Iran is a proud nation with a long history—more than 2,000 years—of struggle to establish and to guarantee its own freedom. The independence of Iran is also in our own vital interest and in the interest of our closest allies, and we will support the independence of Iran.

Out of today's turmoil, it is our hope that these troubled people will create a stable government which can meet the needs of the Iranian people and which can enable that great nation not only to remain independent but to regain its internal strength and balance.

We are prepared to support that effort as appropriate and to work with the Iranian Government and the people as a nation, which shares common interests and common aspirations with us.

But just as we respect Iran's independence and integrity, other nations must do so as well. If others interfere, directly or indirectly, they are on notice that this will have serious consequences and will affect our broader relationships with them.

MIDDLE EAST

At the same time, we are intensifying our efforts to promote stability throughout the Middle East so that the security and the independence of the nations of that part of the world will be maintained.

At my direction, the Secretary of Defense recently carried out comprehensive consultations in Israel, Egypt, Jordan, and Saudi Arabia concerning the security of that region. We are determined to work with these nations and with others to put the peaceful development of the region on a sound and a lasting foundation.

Recent disturbances in the region have underlined the need to work even more urgently toward peace between Israel and its Arab neighbors. To this end, Israeli and Egyptian negotiators—the Foreign Ministers of both countries—will return to Camp David tonight at the invitation of the United States.

They will be meeting with Secretary of State Cyrus Vance. And I myself will do whatever I can to promote the success of the Camp David negotiations. And if it should be necessary, and the parties show adequate flexibility, I will call another summit conference to work for peace. I urge all leaders throughout the Middle East to recognize the vital importance for their region for these talks to succeed.

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SOUTHEAST ASIA

For us in the United States, any crisis in the Middle East has the most immediate and serious consequences. But we are also deeply concerned by what is happening now in Southeast Asia. The same principles of American policy apply: We support the independence and integrity of the regional nations; we will stand by our friends; and we will continue as a nation to work for peace.

Just in the last few weeks we have seen a Vietnamese invasion of Cambodia and, as a result, a Chinese frontier penetration into Vietnam. Both actions threaten the stability of one of the world's most important and promising regions—Southeast Asia.

We have opposed both military actions. Let me outline very briefly the principles that govern our conduct.

First, we will not get involved in conflict between Asian Communist nations. Our national interests are not directly threatened, although we are concerned, of course, at the wider implications of what might happen in the future and what has been happening in the past.

We have been using whatever diplomatic and political means are available to encourage restraint on all parties and to seek to prevent a wider war. While our influence is limited because our involvement is limited, we remain the one great power in all the world which can have direct and frank discussions with all the parties concerned. For this reason, we have a useful and important role to play in the restoration of stability. We will continue our efforts, both directly with the countries involved and through the United Nations, to secure an end to the fighting in the region, to bring about a withdrawal of Vietnam forces from Cambodia and of Chinese forces from Vietnam, and to gain the restoration of the independence and integrity of all nations involved.

At the same time, we are continuing to express our deep concern that this conflict may widen still further—with unforeseen and grave consequences for nations in the region and also beyond.

In any event, the United States is fully prepared to protect the vital interests of our people wherever they may be challenged. We are in close consultation with our friends and allies in the region, especially the members of the Association of South East Asian Nations—the ASEAN nations. Their continued stability and prosperity are of great importance to us.

The normalization of relations between the United States and the People's Republic of China is already an accomplished fact and will not be reversed. This was the simple, long-overdue recognition of the reality of the government in Peking.

In the last few days, we have consulted directly with leaders around the world—and with our own congressional leaders as well—about events both in the Middle East and Southeast Asia. The responsibilities that we face are serious, and they are shared by the Administration and the Congress, by our nation and our allies—and our common understanding and our adherence to a common cause are vital.

All of us know that the internal affairs of Iran or combat even among Communist nations are of concern to us. Many nations are troubled—even threatened—by the turmoil in Southeast Asia and in the Middle East. To stand by our friends and to help meet their security needs in these difficult times, I will consult with the Congress to determine what additional military assistance will be required.

This added measure of support is crucial for stability throughout the Indian Ocean area. And let me repeat, in the Middle East, in Southeast Asia, and elsewhere in the world, we will stand by our friends, we will honor our commitments, and we will protect the vital interests of the United States, and you can depend on it.

U.S. SECURITY AND SALT

As we face this immediate series of crises, we also look constantly to the broader needs of security. If we are to meet our responsibilities, we must continue to maintain the military forces we need for our defense and to contribute to the defense of our allies. This year, I have proposed a substantial real increase in the defense budget. The events of recent weeks underscore the responsibility of the Congress to appropriate these funds in full.

There must be no doubt that the people of the United States are fully prepared to meet our commitments and to back up those commitments with military strength.

Turmoil and crisis also underscore the vital needs to work wherever possible, to stabilize and to reduce competition in strategic nuclear weapons.

This effort has the same ultimate goals as does our strong defense: the goals of security, stability, and peace. In pursuit of these goals, our nation faces no more important task this year than the successful conclusion of a strategic arms limitation agreement.

Just as we work to support national independence and to aid our friends and allies in times of trial, we must work to regulate nuclear arms capable of threatening life throughout this planet. For a SALT agreement is a fundamental element of strategic and political stability in a turbulent world—stability which can provide the necessary political basis for us to contain the kinds of crises that we face today and to prevent their growing into a terrible nuclear confrontation.

After more than six years of negotiations, conducted by three different Presidents, agreement has now been reached on most of the major components of a sound and verifiable SALT II treaty.

The emerging agreement will establish for the first time equal numbers of strategic arms for both sides. It will thus reverse the Soviet's numerical advantage which was temporarily established in the SALT I treaty of 1972, when they had about a 40 percent built-in negotiated advantage.

To reach these new levels, the Soviets will be required to reduce their overall number of strategic arms. Over 250 Soviet missiles or bombers—about 10 percent of their strategic forces—will have to be destroyed or dismantled. At the same time, because we are now well below the agreed ceiling, we could substantially increase our own operational strategic forces.

The SALT II agreement will also provide negotiated limits on building new types of weapons and limits on the improvement of existing ones—the so-called qualitative arms race can be controlled.

SALT II will limit the size of land-based missiles and the number of warheads that can be placed on them. Without these limits, the Soviets could vastly increase the number of warheads on their large land-based missiles, with grave implications to the strategic balance.

SALT II will, therefore, contribute to our ability to deal with the growing vulnerability of our land-based missiles. Without it, the Soviet Union could continue to increase the number of their warheads, tending to nullify our effort to protect our missiles.

The agreement will also permit us and our allies to pursue all the defense programs that we believe might eventually be needed—the M-X missile; the Trident submarine and its missiles; air-, ground-, and sea-launched cruise missiles; cruise missile carrier aircraft; and a new penetrating bomber. These would be permitted.

Thus SALT II would allow our own prudent programs to move ahead and also will place important limits on what the Soviets might otherwise do. And this SALT II agreement will be a basis for further negotiations for additional substantial cuts in the level of nuclear armaments.

Without the SALT II agreement, the Soviet Union could have nearly one-third more strategic forces by 1985 than with SALT II. We would, of necessity, as a nation, match such a buildup. The costs would be enormous, the risks self-evident. And both nations would wind up less secure.

The stakes in SALT are too high to rely on trust. Any SALT II treaty that I sign will be adequately verifiable, using our own independent means of guaranteeing Soviet compliance with terms of the agreement.

SALT II will specifically forbid any interference that would impede our ability to verify compliance with the treaty. Any effort on the part of the Soviet Union to interfere with our verification activities would be a detectable violation of the agreement itself and an early signal of any possible cheating.

Finally, let me put this agreement in the context of our overall relations with the Soviet Union and the turbulence that exists in many parts of the world. The question is not when SALT can be divorced from this complicated context. It cannot. As I have often said, our relationship with the Soviet Union is a mixture of cooperation and competition. And as President of the United States, I have no more difficult and delicate task than to balance these two. I cannot and I will not let the pressures of inevitable competition overwhelm possibilities for cooperation any more than I will let cooperation blind us to the realities of competition, which we are fully prepared to meet.

Because this carefully negotiated and responsible arms control agreement will make the world safer and more secure, it is in our national interest to pursue it, even as we continue competition with the Soviet Union elsewhere in the world. Therefore, I will seek both to conclude this new SALT agreement and to respond to any Soviet behavior which adversely affects our interests.

To reject SALT II would means that the inevitable competition in strategic nuclear arms would grow even more dangerous. Each crisis, each confrontation, each point of friction—as serious as it may be in its own right—would take on an added measure of significance and an added dimension of danger, for it would occur in an atmosphere of unbridled strategic competition and deteriorating strategic stability. It is precisely because we have fundamental differences with the Soviet Union that we are determined to bring this dangerous dimension of our military competition under control.

In today's world, it is vital to match the pursuit of ideals with the responsible use of force and of power. The United States is a source of both—ideals and power. Our ideals have inspired the world for more than two centuries; and for three generations, since World War II, our power has helped other nations to realize their own ideals.

The determination and strength of purpose of the American people are crucial for stability in a turbulent world. If we stand together in maintaining a steady course, America can protect its principles and interests and also be a force for peace. Americans have always accepted the challenge of leadership, and I am confident that we will do so now.

MORGENTHAU ON FOREIGN POLICY
A Center Dialogue*

Earlier this year, Hans J. Morgenthau led a discussion at the Center on American foreign policy. He is a political scientist and historian who has taught at the University of Chicago and the City University of New York. He is the author and editor of a number of books, including Politics Among Nations: The Struggle for Power and Peace, and Politics in the 20th Century. Following is an edited version of the dialogue.

HANS J. MORGENTHAU. Three major elements constitute what I call the "'pathology of American power" in our foreign policy. They are, first, the residues of past thinking, which inhibit correct thinking on current American foreign policy issues, especially those connected with nuclear power; second, the tendency to take certain verbalizations for reality, détente being an example of that; and, third, the sentimentalism which identifies certain emotions and emotional preferences with the reality of international phenomena, patricularly that of the Third World.

In the first issue, there is a contrast between the objective situation with regard, say, to nuclear warfare, on the one hand, and, on the other, certain modes of thought and action which have come down to us through history but which have now been made obsolete by the reality of nuclear weapons. Concepts, such as victory and defeat, attack and defense, are deeply ingrained in our thinking. They tend to influence our actions. But, in truth, they are obsolete, they are inoperable because of the availability of nuclear weapons. Much of the present argument about military strategy between those who favor nuclear arms control or disarmament and those who believe the Russians want to achieve a usable nuclear superiority and to destroy the United States reflects a school of thought still trying to apply traditional, conventional military concepts to the nuclear field. Another school seeks to develop a radically different philosophy, one appropriate to the nuclear age.

The second phenomenon—the tendency to take words for the real thing, to substitute concepts for reality—is exemplified on the international scene in many different ways. I choose the concept of détente as a striking example of what I mean. When we speak of détente as a policy, we assume that we have a choice between détente—that is to say, the diminution, if not the elimination, of tension—and another kind of foreign policy which, one must assume, will cultivate tension or which at least will not be concerned whether tension is eliminated or decreased.

The truth is that in the nuclear age it is impossible to pursue any other policy but one of détente. Indeed, since the beginning of the nuclear age, both the United States and the Soviet Union have consistently pursued a policy of détente. Vis-à-vis each other, they have acted with unprecedented self-restraint in situations which, in a nonnuclear or pre-nuclear age, would probably have led to war. For examples of that, take the Berlin crisis; take the Cuban missile crisis; take the Arab-Israeli war in 1973.

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*Reprinted by permission from World Issues, v. 2, December 1977–January 1978: 10–16.

It is simply misleading and, in a sense, absurd, to talk about a "policy of détente" which might stop or might be replaced by something else, or as something which had not existed before. Détente is not a policy, it is a precondition of the survival of both the United States and Russia.

The third problem is more inchoate than the others. We talk about two different kinds of confrontation—the East-West confrontation and the North-South confrontation—and we assume that, while they are of relatively equal weight, the East-West confrontation is less important today than the North-South confrontation. This seems to me to be a complete misreading of the actual situation. The East-West confrontation—essentially the confrontation between the United States and the Soviet Union—is still today, as it has been since the end of the Second World War, the central issue facing the United States and the world. There are still only two superpowers capable of destroying each other through a nuclear war. All the other nations play subordinate roles in this overall picture.

Moreover, the developing nations, the so-called "South," are, in terms of power, utterly inferior—in different degrees, of course—to both the United States and the Soviet Union. It is not so much that the East-West confrontation has been replaced by the North-South confrontation, as it is that the North-South confrontation has opened up a new theater, a new arena, within which the East-West confrontation takes place. The political center and focus remain. The fate of the world still depends upon how the United States and the Soviet Union arrange their mutual relations.

What is relatively new is that those relations are now taking place not only in the traditional theater of Europe, but also in a new theater roughly described as the "North-South confrontation." The United States and the Soviet Union meet, for example, in Africa; they face each other there for the same purpose and with the same potential consequences with which they have faced each other in Europe since the end of the Second World War.

To think that the East-West confrontation has been replaced by the North-South confrontation is to evade the real problem. Perhaps that is why it has been popular; it takes our minds off the traditional conflict situation between the United States and the Soviet Union. It makes it appear that there is a new relationship which is less threatening and less dangerous than the one between the industralized and the developing Third World nations.

There is a widespread belief that, in this latter relationship, the United States has a special moral responsibility toward the Third World. This assumes the United States is responsible to some extent for the conditions in which Third World nations find themselves. Now, it is perfectly true that some of those nations are developing and that we are helping them to improve their economic status. It is also true, however, that most of those nations, in spite of massive aid from a number of industralized countries, have not been able to improve their economic lot, not merely because of what the United States has been doing to them, but primarily because of natural deficiencies, and because of the domestic and cultural situation inside those nations. The polemic shift of responsibility to the United States, or to the capitalistic or imperialistic nations in general, for the misery in which much of mankind finds itself has had a debilitating effect upon the policies of the United States and of other Western industrial nations. We have accepted some of the responsibility for the fate which has befallen many Third World nations.

If you look at the situation not in terms of emotional prejudices or ideological preconceptions, but in terms of the actual situation that prevails in much of the Third World, you realize that something as elemental as a deficiency in food, for example, is not primarily—perhaps not at all—the result of the economic and political policies of the United States or other industrialized nations. Rather, it is the result of national deficiencies which cannot be remedied by any outside aid. Take Somalia, for instance, or Bangladesh. They suffer certain cultural deficiencies; their whole concept of man and the world erects insuperable barriers to economic development in general and to the development of a food supply in particular.

Furthermore, another indigenous factor accounts for the differences in economic well-being between the industrial and the developing nations. It is the political situation which exists in many of the latter countries. The scarcity of food and the incidence of famine are not simply the result of natural conditions; they are an artificial situation brought about by particular political conditions. China had been periodically ravaged by famine until the ascent of the Communist power, when famine was, if not eliminated, at least greatly reduced by political reform and by the establishment of effective administration and policies aimed explicitly at that goal.

When you look at other nations still suffering periodically from famine, you realize that their governments are either indifferent to the incidence of famine or, because of internal deficiencies, are incapable of doing anything about it.

I will not go through the whole catalogue of the indigenous deficiencies in these countries. I want only to make the point that an uncritical acceptance of the polemic which puts the burden of responsibility on us and to which we have been exposed by unceasing propaganda, has become, because it has been so unceasing, a substitute for truth. That has had not only negative intellectual consequences, it has also had negative political consequences. It has paralyzed our ability to take action in our own interest and, insofar as it is possible, in the interests of the Third World itself.

Donald McDonald (Editor of the Center Magazine and World Issues). Could you say a bit more on the extent to which you see the United States as having any special burden of responsibility at all, especially toward Latin America?

Morgenthau. I have difficulty in seeing that. Latin Americans have a typically ambivalent attitude toward the giant on their north. On the one hand, the giant is envied and criticized; on the other hand, they try to imitate him. The whole concept of Latin America is itself an abstraction with very little relationship to reality. The United States could be held responsible today for the conditions that exist in one or another Latin American country only if the United States had had the power to do something about conditions in that country when the country first started.

There is a story allegedly told in Brazil. When God created Brazil, He said to St. Peter, "I will give to Brazil the biggest coastline, the biggest pampas, the biggest natural resources, the biggest river." St. Peter said, "But if you do that, you will make Brazil the most powerful country in the world." God replied, "Wait until you see the kind of people I am going to put in there." So, there are existential conditions which even the most powerful and most benevolent nations in the world can do nothing about.

McDonald. You said that we have paralyzed ourselves because we have guiltily and sentimentally taken on the burden of responsibility for what happens in other countries. But one thinks of the United States and Chile. We were not paralyzed in Chile. We moved in rather forcefully. Where and how have we paralyzed ourselves in our dealing with Chile and other small nations?

Morgenthau. We paralyzed ourselves in not supporting the indigenous forces for change which could have created stable societies which—let me put it more carefully—would at least have had a chance to create more stable societies than were actually created.

Clifton. Fadiman (Center Associate). That does make us, in a sense, responsible.

Morgenthau. Provided, if you had pursued such a policy, that you had the power to change the situation in the Third World. I grant you that, in a sense, we have a responsibility for the misery which exists in the Third World. But it is not the responsibility for which we are accused. It is the responsibility for not supporting the forces for change which had a chance.

Fadiman. There is a responsibility which comes of inaction, a passive responsibility.

Otis L. Graham, Jr. (Center Associate, Professor of American History at the University of California at Santa Barbara). Could we have some examples where we failed to support?

Morgenthau. Take Vietnam. Take Chile. Take many other countries where there has been a third force between Communism and military dictatorship, or where we have a chance to create conditions for the development of a third force which might have created a viable . . .

Joseph J. Schwab (Center Associate). At least the United States need not have abetted the destruction of the third force, as in the case of Salvador Allende in Chile.

Morgenthau. Or to identify the third force with Communism and destroy it.

Fadiman. The great example being China itself.

Morgenthau. At least in theory one can make that point regarding China. Nobody knows what would have happened if we had supported the relatively feeble third force in China.

Schwab. Shifting the question from one of moral responsibility to one of prudence, what would it be in our interest to do with respect to both South America and South Africa?

Morgenthau. Let us make some distinctions. Let us put South Africa to the side for a moment. In South America there is very little we can do. Prudence implies the ability to act effectively according to the purpose you have set for yourself. But take any Latin American country, take Brazil or Argentina, two countries blessed with enormous resources. In terms of objective resources, Brazil could be the equal of the United States in Latin America. But, as that somewhat silly story I told implies, Brazil's human material and her social and moral conditions are not conducive to the kind of development the United States has undergone, and which has led to our prosperity and our power. To transfer those qualities, which are responsible for our development, to another nation is simply impossible. If you tried to do that, you would be accused of imperialism before any positive results could appear. So you are faced with a situation in which you are called upon to act; but when you act, you are condemned for having acted. In consequence, the rhetoric of the "good neighbor policy" becomes a substitute for action; there is no action.

Schwab. Does the same apply to the South African and Rhodesian situation?

Morgenthau. The fact that we are raising the question of South Africa or Southwest Africa as a question of American foreign policy is itself significant. What you have there is such an intricate, complex situation that it seems to me absurd to think an outside power can have a decisive influence. Of course, we have an interest in preventing a race war in southern Africa, not only for humanitarian reasons, but also, I think, for very concrete American reasons. If a race war breaks out in southern Africa, it will inevitably have serious, if not catastrophic, repercussions in the United States. Whatever position the white government of the United States would take in such a race war, it must consider that millions of black Americans will, naturally and existentially, look at such a war in southern Africa from a different perspective than that of the white citizens of the United States.

Graham. You have no sympathy, then, with the moral overtones of Jimmy Carter's Administration.

Morgenthau. I think it is sheer dilettantism. It makes the speaker feel good. It makes the listener feel good. But it does not change anything in the real world.

McDonald. Do not words also have effects? Let us agree that the reality of détente has been pursued since World War II. But when one now brings it out into the open and articulates détente publicly, does that not affect public opinion in such a way that the purposes of détente may more easily or surely be achieved?

Morgenthau. That could be. But, you see, it messes things up terribly. You can read in editorials in *The New York Times* that the policy of détente is endangered by this, that, or the other thing. And in another editorial, you read that the policy of détente has come to an end. All this is nonsense. The real issues of foreign policy are buried in the debris of that nonsense.

Graham. What are people arguing about when they argue about détente? They are arguing about something.

Morgenthau. They do not argue about anything real.

Schwab. The new hard line the Russians have taken with Carter; if that is not a questioning of détente, or a threat to it, what is it?

Morgenthau. The Russians are reacting to the rhetoric about human rights. For us, human rights are one moral postulate among other postulates. But what we call a denial of human rights is a cornerstone of the Russian political and moral system. According to the official doctrine of the Soviet Union, the government is the direct successor of Lenin and Marx. In consequence, it has a monopoly on truth and virtue. Anybody who questions that monopoly must be out of his mind and ought to be sent to an insane asylum.

There is perfect logic in this. When you argue with a Russian about freedom of the press, for instance, he tells you that genuine freedom of the press exists only in the Soviet Union, because only the Soviet Union allows the truth to be printed. *Pravda* means truth. And in capitalistic countries, with their freedom of the press, the press, says the Russian, is free to print lies. Which is morally superior?

So, here is a situation in which our conception of human rights comes smack up against the Russian conception which is entirely different. There is no dialogue. We are not talking about the same moral issues. We are starting from opposite and irreconcilable assumptions.

Further, the Russians consider our defense of human rights to be the beginning of the overthrow of the government of the Soviet Union. Their own weakness has led them to fear, in an almost paranoid way, the attempt of the West, first to encircle the Soviet Union under Stalin, and now to overthrow the government of the Soviet Union.

Schwab. If they are almost paranoid about their protection of human non-rights, on the one hand, and do not dare violate détente on the other, they, too, are in a vise.

Morgenthau. On the one hand, in view of the structure of international relations, one defends one's interests, if need be by force. On the other hand, one realizes that the use of force in the relations between the United States and the Soviet Union means the destruction of both. We are in the same dilemma as they.

Schwab. So, what are they going to do about it? They are in it too.

Morgenthau. There is no answer to that dilemma, because the dilemma is a result of the conjunction of the availability of nuclear weapons with the structure of international relations, based upon the sovereign equality of our nations.

C. Herman Pritchett (Professor Emeritus of Political Science, University of California at Santa Barbara). Your earlier remarks about cultural deficiencies in developing nations, and now the suggestion of our own cultural deficiencies along with those of the Soviet Union—if we put this all together, does that lead us to laissez-faire nationalism? Are you saying we cannot cope with these problems?

Morgenthau. We must recognize that we live in a pluralistic universe. There are all kinds of cultures, some of which we don't like, some of which we detest. This is a condition of existence over which we have no control. The present Administration's attempt to exert control is futile. From time to time, we should express our allegiance to human rights. But to make this, as the Secretary of State has said, the center of our foreign policy seems to me absurd. It cannot be the center of any policy. It is not a policy. It is a moral declaration.

The point I was making when I referred to cultural deficiencies was that the backwardness of a great number of so-called Third World nations is not the result of imperialistic machinations, or natural deficiencies, but of a culture which is so different from Western culture that it cannot possibly produce the same kind of capitalism or technological society our culture has produced.

Pritchett. And ours produced Vietnam.

Morgenthau. I wouldn't, well, in a sense, you can say that, sure.

Laurence I. Hewes, Jr. (Center Associate). I have been following the U.S. foreign aid program; and it seems to me that it has been an adventure in going from reality to unreality. We began the Marshall Plan, the reconstruction of Europe, and it worked fairly well. We shipped over our technology and capital goods, and the response in Western Europe was positive. So we assumed that we could use the same technology in places like India and Indonesia. We have never been able to reconcile the fact that we succeeded in one place and failed in the other. Yet it wasn't always complete failure. We did put a lot of money into South Korea. Whether that was for moral or some less admirable reasons, the effect has been to create the material conditions for growth in the ordinary economic meaning of the term. But we don't know why our aid works in some places and not in others.

Morgenthau. I think we know why the Marshall Plan succeeded and why most of our foreign aid programs did not succeed. The Marshall Plan was a blood transfusion for a temporarily disarrayed, highly developed, modern industrial society. That is an entirely different situation than trying to create out of nothing a modern industrial society in Indonesia, let us say. If you put enough money into a particular place, you do get results. West Berlin is an example. We wanted to create a showplace of Western capitalism, in contrast to the drabness and backwardness of Communism in East Germany. We succeeded temporarily. At the moment we are no longer succeeding.

Graham. You referred earlier to the arms control argument in the United States. And we do have a good argument between those who really do not believe in arms control and those who do. That argument focused around Paul Warnke at the time of his nomination as director of the Arms Control and Disarmament Agency and those opposed to him, Senator Henry Jackson and others. You used the phrase "radically different," and I understood you to mean or imply that those who are vigorous American opponents of arms control have a radically different conception than those who have traditionally manned the Department of Defense and made budgetary decision. I don't see them as having radically different conceptions.

Morgenthau. The term "radically different conception" concerns the nature of the arms competition. For people like Paul Nitze and Senator Jackson, there is no qualitative difference between conventional and nuclear weapons. As General Curtis LeMay once put it, a nuclear bomb is just another bomb. Of course, Nitze is much more sophisticated than that. But essentially he would say there is a continuation between the most powerful conventional TNT bomb and, lets says, a tactical nuclear weapon. You can use either one as you see fit.

According to the other school of thought, to which I adhere, there is a quantitative, unprecedented difference between a nuclear weapon and a conventional weapon. This difference must be reflected in the policies one pursues and advocates. When you deal with conventional weaponry, you are operating in a military economy of scarcity. There are always more targets presented than there are weapons available. For this reason, it is perfectly legitimate to embark upon a conventional arms race. The more machine guns you have, the more howitzers you have, the more airplanes you have, the better off you are against a potential enemy.

But when you deal with nuclear weapons, you are operating within a military economy of plenty. Your destructive power transcends by far any possible targets you can imagine. According to one estimate, the United States has, in the form of nuclear warheads, the equivalent of two tons of TNT for each man, women, and child living on this earth. Or take the twenty-five-megaton warheads the Russians have. These are so powerful that, according to the estimate of the Atomic Energy Commission one such device exploded at a certain height over Chicago will kill people walking in the streets of Buffalo. We both have absolutely unimaginable destructive power. This being the case, the accumulation of weapons—perfectly rational as applied to conventional arms—is utterly irrational when applied to nuclear weapons.

Furthermore, the distinction between victory and defeat becomes irrelevant in a nuclear context. Both belligerents will suffer fatal damage in a nuclear exchange.

As far as disarmament is concerned, that has proven to be impossible with regard to conventional weapons. The attempt to disarm was started right after the Napoleonic Wars, with Russia suggesting it to Great Britain in 1818, if I am not mistaken. All such attempts failed, with the exception of the disarmament on the Great Lakes and, temporarily, the Washington treaty for naval disarmament in 1922. Generally, all disarmament efforts have failed because the conventional arms competition is a mere function of the competition and struggle for power between nations. But when it comes to nuclear weapons, disarmament is perfectly possible because of the enormous destructiveness of nuclear weapons, so that very quickly you reach a plateau of optimal nuclear power, beyond which it is irrelevant to go.

Graham. You are saying disarmament. I do not hear anyone arguing very much for disarmament. They are arguing for arms control. But in an arms-controlled world we would have an enormous nuclear capacity and might well use it, and I don't see Paul Warnke questioning that.

Morgenthau. You have to take one step at a time. Considering what you are up against, you are not going to show all your cards at once. I think Warnke would probably agree with me, but he is wise enough, as a political actor, not to say everything he knows, especially when he is being questioned by a congressional committee.

Graham. And Curtis LeMay agrees with you, doesn't he, that anybody who talks arms control is secretly a disarmament person?

Morgenthau. That is correct.

Schwab. You say that, given the existence of nuclear weapons, disarmament is possible. Doesn't that overlook the reality of Pentagons—here and in Russia—interested only in the aggrandizement of their budgets and their size? The continued aggrandizement of nuclear power is currently the substitute for war as a means for overcoming recessions and depressions.

Morgenthau. This is, in a sense, correct, but only because people do not understand the distinction I make between conventional and nuclear weapons; or they understand it, but do not put it into practice. One of my best students became a leading official of the Central Intelligence Agency, and he had to brief the Joint Chiefs of Staff about what we are discussing here. He told me that whenever he discussed with General Earle Wheeler the difference between nuclear and conventional war, the general said that, of course he recognized the distinction. But my former student never saw a trace of that recognition in the position papers with General Wheeler's signature. There is a cultural gap between what we here around this table can understand theoretically and what the actor on the political or military stage can transform into reality. There is simply a non sequitur.

McDonald. A few months after he was defeated in the 1976 Presidential campaign, Gerald Ford said in a University of Michigan speech that there were some things he would have done differently on disarmament, but that he could not do so because of forces in the Pentagon and the Department of Defense. To what extent can President Carter, or any President, succeed in any policy to which the Pentagon is fundamentally opposed?

Morgenthau. That is a different question. I can only discuss these matters in rational terms, that is, in terms of what should be done, and what can be done, on the assumption that everybody acts rationally. That there are forces which think and act irrationally is something one really cannot take into account theoretically. You can take it into account only when you are dealing with those problems in practice.

McDonald. How would you have solved Gerald Ford's practical problem?

Morgenthau. You can solve it only by creating a counterforce, one based on a rational understanding of the issues.

McDonald. A President would have to try to shape a different kind of public opinion?

Morgenthau. And also private opinion, the opinion of the policymakers and of the opinion-makers themselves. I have found more sympathy for my position among the military than I have in certain civilian circles.

Fadiman. Yet—to come back to Mr. Schwab's point—you have said that when your student tried to explain a basic distinction to General Wheeler, the Pentagon was not able to grasp it.

Morgenthau. He was able to grasp it and the people in the Pentagon are able to grasp it in theory, but they are unable to get away from the modes of military thinking and action that have been with us since the beginning of history.

Graham. In your writing you have always stressed the perniciousness of wrong thinking and bad ideas. But isn't it true that this discussion here has revealed that institutional arrangements are apparently just as important in their consequences?

Morgenthau. Institutions do, of course, play their part. But the pull and drag of received ideas and customary action, the idea that this is the way we have always done things, is extremely important. The availability of nuclear weapons means we have to get away from concepts that have been with us from the beginning of history. To convince a general that victory is not acceptable, that it is not even a possible aim of warfare, is a task of great magnitude. General Douglas MacArthur said tthere was no substitute for victory. But there is a substitute for victory when you understand this.

Graham. General George J. Keegan, Jr., was here a few months ago, and assured us that the intentions of the Soviet Union are discernible from information secured by overflight, by photographs, and by I don't know what all. From the array of Soviet forces and how they are disposed tactically, Keegan reads the Soviet intentions as aggressive, likely to be triggered at any time.

Morgenthau. Anybody who believes that must also believe that the Russians have taken leave of their senses. The United States has an inviolate sea-borne nuclear deterrent. Let us suppose that the Russians can destroy everything on land, but we are going to smash them to pieces with hundreds of megaton warheads in our submarines.

Graham. Keegan argued that the Russians have a massive civil defense program, that they are ready to take whole cities underground.

Morgenthau. That is nonsense.

Schwab. They could not come back up again for several thousand years.

Morgenthau. They do have a civil defense program to protect their political cadre so that their political regime can continue. And certain categories of people—say the managers of their plants—would be protected for a particular purpose. But the idea that they can put two hundred million Russians beneath the surface and let them be there is nonsense. Another thing that makes nonsense of any civilian défense effort in a nuclear war is that there will be tens of millions of casualties. None of our clever technocrats, Herman Kahn included, have ever considered the situation that will exist when the survivors emerge from their holes and are surrounded by tens of millions of corpses. Are they saying that that will have no psychological or physical effect? What about epidemics? What about the cadre of undertakers which they must also put underground so that they can dispose of the corpses?

Schwab. Meanwhile, radioactivity will kill them off as . . .

Morgenthau. The whole idea that you can make a kind of clean division between the uncontaminated individuals who are underground and the others who are dead or dying above ground is something out of Alice in Wonderland. It is plain silly. But my point is that the fact that it is silly obviously does not prevent its being embraced. Look at the military strategy during the First World War. It was sheer madness to kill off the youth of Europe on both sides for nothing. Stalin made this point to Lady Astor. When she asked him how many people had been killed in the collectivization of agriculture in Russia, Stalin didn't answer, but he asked, "How many people were killed in the First World War?" Lady Astor said, "Seven million people." And Stalin answered, "Seven million people killed for nothing."

So, you see, one must be careful not to dismiss absurd propositions simply because they are absurd. Lots of them have been believed and have been put into practice.

William Gorman (Center Associate). That would apply to the proposition that the Soviets intend to initiate a nuclear war.

Morgenthau. Surely.

Gorman. So, you cannot have it both ways. One of your themes is the degree of irrationality that can enter history. So, you have to accept the possibility—against your points—that the Russians, too, might behave irrationally and embrace the absurd as far as a nuclear war is concerned.

Morgenthau. One is reduced to prayer.

Gorman. I'm willing to join in that.

Arnold M. Paul (Attorney; Lecturer in Constitutional History, University of California at Santa Barbara). What I get from your presentation, Professor Morgenthau, is that the very hard, intractable questions raised by Norman Cousins back in 1945 are still with us; that we have made no progress in answering them; that, in fact, the over-all world situation has worsened because of the nature of the nuclear constituency and nuclear weapons; and that we are sidetracked and bemused by other aspects of national foreign policy, including what you have described as a dilettantish quest for human rights throughout the world, a quest which you say disregards cultural differences, and by the belief that détente means anything other than restraint from the use of nuclear weapons. Also you hold that the real test of a rational foreign policy today is the degree to which one mobilizes opinion and opinion-makers for the reduction and ultimate elimination of nuclear arms. Is that a fair statement?

Morgenthau. I would not say elimination, because I do not think that is possible. The stakes are too high. Let me suppose that both sides agreed to the elimination of nuclear weapons, and that one side cheats by keeping five. That would make it the master of the world.

Graham. But that is General Keegan's argument. And that argument logically leads you to keep adding new weapons on top of the old, as long as they are better than those being added by the other side to their stockpile.

Morgenthau. I don't see why that follows logically.

Paul. Internationalization of control and inspection might be the answer.

Morgenthau. Until 1968, we had a situation in which one missile equaled one nuclear warhead. You could photograph, from space satellites, every single missile every day in the Soviet Union. And we do that, of course. But now that multiple warheads have been put on the missiles, we can no longer be sure how many warheads there are. One missile may equal fifteen warheads, an enormous difference, one too great to reconcile yourself to. And then the problem of verification becomes extremely difficult, if it is solvable at all. So, I am pessimistic about genuine disarmament, or even genuine arms control, because of the verification problem. How do you verify the incidence of cruise missiles, the nature of cruise missiles? The question is, how many of these MIRVs—multiple independently targeted re-entry vehicles—does the other side have? Are they staying within the Vladivostok limits? Or will they go beyond them? If you don't know, you will reassure yourself by adding some extra ones for yourself. The other side will do the same. And you then have a subterranean nuclear arms race.

McDonald. You have said that the appearance of nuclear weaponry should make a qualitative difference in military strategy and military thinking. Would you go a step further and say it should also have an effect on—though apparently it hasn't yet—political thinking about international relations? Is *Realpolitik* now the world-law and world-federation approach, rather than traditional nation-state concepts of and approach to foreign policy?

Morgenthau. I have made the point for more than twenty-five years that the nation-state, as the principle of political organization, has become obsolete. It has been rendered obsolete, not only by nuclear technology, but also by the technology of transportation and communications.

Graham. You do not say this out of any idealism about the human family? It comes out of some more realistic assessment?

Morgenthau. I don't quite see the distinction. To begin with, thinking about foreign policy is motivated by a humanitarian concern: how to preserve humanity, how to prevent a third world war.

Gorman. In your opening remarks you said that the United States is not responsible for conditions in the Third World. But it seems to me unrealistic to deny that, however you use the term "responsibility" regarding the Third World, we must develop some policy in terms of what you have just said, humanitarianism.

Morgenthau. But I come back to the principle of Roman law, *ultra vires nemo obligator*, beyond his powers nobody is obligated. The United States is not powerful enough, not wise enough, not rich enough to transform the world in the image of a happiness that is peculiar to the United States and that may not be shared by other cultures to begin with.

For instance, there is an ethnocentric fallacy in the concept of foreign aid which is that what we in the United States regard as the ultimate in happiness is bound to be so regarded also by the rest of humanity, and that if we would just bring our technological civilization to the rest of the world, we will have rendered a great service to mankind.

Gorman. It is too easy in this exchange for you to imply that I am recommending as a policy something that would be that silly.

Morgenthau. I am not implying anything of the kind.

Gorman. You quoted this Roman saying. Obviously a decent response to the misery that exists in a large part of the world must obey whatever good sense is in that maximum, which is: don't try to do something you can't succeed at, it will only mess things up. That is obvious. Further, one must not fail to notice that there are serious cultural and historical differences between America and other nations in the world. But, duly sensitive to all of those things, the question remains. What do we do?

THE FUTURE OF AMERICA'S FOREIGN POLICY*

Two days ago this nation joyfully and confidently celebrated its 200th birthday. And in a little less than 4 months our people will go to the polls to elect a President and begin charting our course through our third century.

No two events more vividly symbolize our contemporary challenge—its hope and its promise. For 200 years we struggle to build a nation from a wilderness, a sanctuary for the oppressed, and a home for all those who love liberty and believe in man's right to govern himself. And during those 200 years, despite occassional setbacks and mistakes, we have succeeded in vindicating the dreams of the great men who came together in Philadelphia to proclaim a new nation. At home we have created a society more free, just, and prosperous than any other on earth. And abroad no nation has done more to defend peace, promote prosperity, feed the hungry, heal the sick, spread knowledge, welcome refugees from tyranny, and champion the rights of man.

The past gives perspective to our endeavors, pride in where we are, and hope for what we may become. But the future, as always, depends on choices which now are ours to make.

Much will be said in the months between now and November about the state of our nation. Some of it will make sense; some will not. Some of it will reflect reality; some of it will not—but rather the desire to create a temporary mood or to capitalize on it. Let us recall that 4 years ago we were told by some that we had become a nation of potential war criminals, that our military establishment had passed the bounds of reason and was out of control, that our foreign policy aggressively invited conflict, and that we were neglecting the needs of our people. That was not true then. It is not true now.

Today we are told that we have let our military position slip to the point that we are second-rate, that we are being pushed around and that our government is resigned to seeking the best available terms. That also is not true, and the American people know it. They know we remain far and away the strongest nation in the world. They know that America's dedication to peace and progress is essential to the world's security and well-being. They have learned painfully long ago that military conflict abroad threatens American lives; more recently they have seen how global economic conflict can threaten American jobs and well-being. With our defense shield the core of the security of free countries, with our economy representing a third of the gross national product of the entire free world, our actions and the confidence of those nations who depend on us are crucial for the prospects of all free peoples. We must avoid a complacency that is unworthy of our challenges. But equally we must resist a rhetoric of impotence which disquiets friends and emboldens adversaries.

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*Text of a speech by Secretary Henry A. Kissinger before the Chicago Council on Foreign Relations and the Mid-America Committee, July 6, 1976. Department of State Bulletin, v. 75, Aug. 2, 1976: 149–157.

The people of Chicago hardly need a lecture about the vigor and strength of their country. Chicago has been called "the pulse of America," "the city of the big shoulders." Chicago is a symbol of America's phenomenal productivity, energy, and economic power. No other city so embodies the sense of American's fibre. Here is where the skyscraper was born; here is where the atomic age began. This city is a promontory from which to view the world of tomorrow a world in which America must live and which it therefore must help to shape. Chicago's excitement is a testimony to might and mass and beauty and to the raw pursuit of excellence.

It is clear that before us lies a period of potentially unparalleled creativity. This is an age of complex and dangerous forces. But the United States, and the great industrial democracies which share our value and our ideals, have the opportunity to give a new meaning to the vision of human dignity which for centuries has brightened the prospects of Western man.

Thirty years ago, with the Truman Doctrine, the Marshall plan, the formation of our alliances and new international economic institutions, America burst forth on the world scene in a great outburst of creative statemanship. Because it had conquered the depression, the generation which shaped our postwar policy had faith in the power of governmental programs to promote economic advance and social progress. Because it had won a war whose moral imperatives were clear-cut, it acted on the assumption that we would always face straightforward moral choices. That generation was inspired by the hope that at some point its exertions could end, as our allies became self-sustaining and our adversaries mellowed.

Today, reality is more complex. We have learned that economic development cannot be achieved overnight or through governmental projects alone. The nuclear age imposes upon us the inevitability of coexistence. We now live in a world of greater diversity, a world of many centers of power and ideology. America, for the first time in our history, faces the reality of permanent involvement in international affairs.

The challenges of peace, prosperity, and justice are unending; there are no easy and no final answers. Good intentions alone do not constitute a foreign policy. We must learn to conduct foreign policy as other nations throughout history have had to conduct it—with persistence, subtlety, flexibility, nuance, and perseverance; with the knowledge that what can be achieved at any one point will always fall short of the ideal, but that without ideals the search for the merely practical becomes stultifying. We can no longer afford to oscillate between isolation in preservation of our purity, and interventionism in pursuit of objectives whose attainment would permit us to withdraw from the world. Foreign policy must be conducted not as a response to domestic passions, or to international crises, but as a long-term enterprise—engaging our best efforts for as far ahead as we can see—of building a better and safer world.

Our national objectives and ideals if they are well conceived cannot change every 4 years, or with every new Administration. To pretend that they do, or even that they can, would make American policy itself a major factor of instability in the world.

Whether we call it "structure" or "architecture," whether the process which produces policy is solitary or done by committee, the nation will have to continue to engage itself in managing the transition from the postwar international order based primarily on defense against aggression to a new international system which adds to security the needs of economic cooperation and political consensus on a global scale.

And we must do so under radically altered psychological conditions at home. The generation that undertook the great initiatives of the postwar period was inspired by the recollection of a conflict whose morality was unquestioned and whose outcome was conclusive. The generation that will have to sustain contemporary foreign policy recalls only wars that appeared morally ambiguous and whose outcomes were profoundly frustrating. Ours is a period much less confident of the ability of governments to manage the great issues of the era.

And yet too much depends on us to permit our commitment to falter. We have physical strength in abundance. We must marshal the vision to put it into the service of our ideals.

The time has come to build a new foreign policy consensus similar in scope but different in content from that which sustained our previous achievements. Democrats and Republicans, Congress and the Executive, government and citizen must once again conduct the foreign policy debate in the spirit of partnership—recognizing that we are not at war with each other, but engaged in a vital national enterprise affecting our future and the world at large. Our electoral process can do much to strengthen our role in the world—both by healing the wounds of the last decade, and by forging the elements of a new nonpartisan consensus in foreign policy. This election, whatever its outcome, should be remembered as the time when the American people rediscovered their unity in the formulation an execution of foreign policy.

Despite the domestic turmoil of recent years, much has already been achieved.

For the first time in a decade and a half we are at peace. Our relations with the industrial democracies are the closest they have been in 20 years and our collaboration is steadily expanding into new fields. Here in the Western Hemisphere, we are forging a new association based on equality and mutual respect. We have inaugurated a hopeful new policy in Africa. Important progress toward peace in the Middle East has been made and the elements for major new advances exist. In Asia our relations with Japan have never been better. We have opened a new relationship with the People's Republic of China that will expand in keeping with the Shanghai Communique [February 28, 1972]. And with respect to the Soviet Union we have combined vigilance with conciliation, a determination to resist expansion with a readiness to build relations on more stable and lasting basis than a balance of terror.

But great tasks remain: to strengthen further the solidarity with our major allies; to explore new prospects for reducing tensions with our adversaries; and to shape the new dialogue between the industrial and developing nations into a constructive long-term relationship of common benefit.

Let me turn now to these issues.

THE COLLABORATION OF THE DEMOCRACIES

The collaboration of the industrial democracies of Western Europe, North America, and Japan has been the central core of America's foreign relations throughout the postwar period. It remains the principal focus of our foreign policy today. And it has been constantly strengthened in recent years.

The intensity, regularity, and scope of the permanent dialogue among the industrial democracies can scarcely be exaggerated. President Ford since he has been in office has conferred with the leaders of our NATO and Japanese allies at four Summit meetings and over 60 individual meetings, abroad or in Washington. I have met with Foreign Ministers or heads of government of the industrial democracies over 200 times since I have been Secretary of State, including over 100 times with leaders of the major nations represented at the Puerto Rico Summit. This solidarity is a record unmatched by any other group of independent nations. For many years there have been no major disputes between America and our allies; today there are no significant differences in approach or policy. The relations among the industrial democracies have not been as close in many decades—and are far closer than they were 10 years ago.

Of course, frequency of consultation is not enough. We must never cease to keep our alliances relevant to current conditions. Our alliances were formed a generation ago to stave off common dangers: the threat of Communist aggression, and the fear of economic collapse. These goals have been substantially achieved.

Our economies are the most prosperous on earth; we comprise 65 percent of the world gross national product and 70 percent of its trade. Our technology, managerial skill, and productive dynamism have proven to be indispensable to all nations that seek to develop their economies and improve the lot of their citizens. The developing countries and the Socialist countries, despite their habitual denunciation of the free market system, now recognize that they must turn to the industrial democracies for trade and assistance in improving their own economies.

We confront the agenda before us with confidence and aware that our cohesion which has brought us this far remains crucial to all that we do:

We must maintain our common security in changed circumstances. For most of the postwar period we relied on strategic forces for both deterrence and defense. Today, the numbers and destructive power of nuclear weapons tend to produce a strategic stalemate. Challenges below the strategic nuclear level become more dangerous; forces for regional defense—land, sea, and air—therefore grow more important. Our alliance forces must reflect these new realities and be strengthened in crucial categories.

We must continue to coordinate our economic strategies to encourage economic growth while controlling inflation. In a period of growing economic interdependence, we cannot afford to have national economic policies working at cross-purposes.

We must develop joint approaches to relations with the developing nations. Almost all development in the world today gains its impetus from the industrial democracies. There is no reason for defensiveness.

If we compete among ourselves for the favor of the developing nations, we dissipate our own resources and tempt the developing nations in unproductive and unrealistic directions. If the industrial nations cooperate among themselves, we have the best chance to bring about cooperative relations between developed and developing. Only this can end tactics of confrontation and contribute to new global arrangements in which all nations participate and benefit.

Finally, the industrial democracies must coordinate their policies with respect to East-West trade. The volume of that trade has been growing at a rapid rate—more so in the other industrial democracies than in the United States. We must better understand the implications of interchange between market and centrally controlled economies; we must avoid its political exploitation; we must study the implications of the mounting debts of the nonmarket economies; we must shape the trade in a direction beneficial to the overall purposes of the industrial democracies.

This is the meaning of the President's meeting 10 days ago with the leaders of Canada, France, Germany, Great Britain, Italy, and Japan at the Puerto Rico Economic Summit. There, as at Rambouillet last November, the allied leaders discussed such basic issues as how to consolidate our economic recovery and head off a resurgence of inflation. They exchanged views on East-West economic relations, and the status of the dialogue with the developing nations. The meeting reflected and promoted the growing cooperation of the industrial democracies. It symbolizes their political will to shape their future together.

All the tasks that I have enumerated here grow out of the strength of the industrial democracies. And all these tasks are inescapable. We have every reason to face the future with confidence. A world that yearns for peace and freedom, for economic advance, for fundamental human justice today looks to our nations for understanding and for leadership. If the democracies remain strong and united we can usher in an era of unprecedented peace and progress.

THE AGENDA OF WAR AND PEACE

Throughout its existence, the Atlantic Alliance has based its quest for peace on two complementary policies:

First, we must maintain our defenses, resist military challenges, and prevent the Soviet Union from transforming its military strength into political expansion.

Second, we must seek to resolve conflicts and disputes through negotiation, foster habits of restraint in international conduct, and expand the area of constructive relations.

However we label such an approach, its objectives are imposed by the unprecedented conditions of the nuclear age. No statesman will lightly risk the lives of tens of millions. Every President, after entering office and seeing the facts, has come to President Eisenhower's insight that "there is no alternative to peace."

We have no illusions about the Soviet ideological and geopolitical challenge; but neither should there be illusions about what is needed to deal with it.

The strength of the West—military, economic, and moral—must be used to shape international relationships in accordance with our vision of a better world and with a full sense of responsibility toward the awful cataclysm of nuclear war. We must avoid both a sentimentality that would substitute good will for strength, and mock toughness that would substitute posturing for a clear perception of our interests. We will maintain the balance of power, but we will also recognize that peace, to be lasting, must rest upon more than a balance of terror constantly contested. Specifically:

We will continue to seek a fair and reliable agreement on strategic arms limitation because this is in our interest and the interest of the world peace. The President will not hesitate to sign an agreement that protects our national interests and those of our allies. But he will never agree simply for the sake of agreement or run risks with our national security.

We will continue, together with our allies, to seek negotiated solutions to East-West political problems in order to diminish the risks of confrontation.

We will continue to develop cooperative ties on the basis of reciprocity to foster responsible international behavior and a mutual interest in better political relations.

It goes without saying that a reduction of tensions requires an equivalence of obligations and commitments:

Agreements reached must be balanced and reliable; they must be complied strictly both as to their letter and their spirit.

There must be consistent patterns of behavior in different parts of the world. We will not permit the relaxation of tensions to be practiced selectively. We cannot accept insistence on restraint on strategic arms or in Central Europe while tensions are exacerbated in other parts of the world in the name of national liberation or proletarian internationalism.

There must be tolerable definitions of ideological rivalry. We do not fear ideological competition; indeed, we assume it. We have every reason for confidence in the power of the idea of freedom. But we cannot agree that ideology alone is involved when Soviet military power is exerted in remote areas or when ideology is invoked so that regional or local instabilities can be exploited.

The relaxation of tensions must not become a subterfuge to play allies off against each other. Allied cohesion insures that relaxation of tensions is broadly based; division and competition among us would only dissipate our advantages and open up opportunities for adversaries.

In Europe the relaxation of tensions must apply to the Eastern as well as Western half of the continent. There should be no room for misconceptions about American policy:

We are determined to deal with Eastern Europe on the basis of the sovereignty and independence of each of its countries. We recognize no spheres of influence and no pretentions to hegemony.

For this reason we will continue to develop our bilateral ties in economic and other fields with the nations of Eastern Europe, and encourage similar efforts on the part of our Western European allies.

We will continually seek improvements in the basic conditions of human life in Eastern Europe—in terms of emigration, unification of families, freer flow of information, increased travel, and economic interchange.

Improving relations between East and West is a long-term process. We pursue it on the basis of our purposes and our ideals. We will never slacken the quest for peace.

We can only benefit from the challenge of peaceful competition. Nowhere have the industrial democracies suffered setbacks because of lack of strength. Without exception the problems have been internal; they are therefore within our power to remedy.

We must not so bemuse ourselves with rhetoric that we forget that in every category of relevant power the democracies have the means to preserve and foster their objectives. We need only to stay together and stay the course.

In the military field we have the strength to defend our interests. In the economic area our performance has been overwhelmingly superior. In the ideological competition it is not our nations but the East that has shown fear of the power of freedom. The winds of change are blowing from the West. If we act with wisdom and unity the free nations have it in their power to leave their children a safer and more hopeful world than the one we found.

THE EMERGING STRUCTURE OF A GLOBAL COMMUNITY

Within the past decade, and particularly over the past several years, a new dimension of international affairs has moved to center stage: the relations between the Northern and Southern Hemispheres.

For the first time in history the international system has become truly global. Decolonization and the expansion of the world economy have given birth to scores of new centers of power and initiative. The globe's security and prosperity have become more and more indivisible.

Yet in a world of over 150 sovereign nations, many of which have only recently achieved independence, progress toward understanding of our common destiny has been halting and uneasy. Too many nations still seek to extort what is meaningful only if freely offered. Attempts at economic warfare, and sterile disputes between the industrial and developing nations, have been all too characteristic of international conferences. Such tactics overlook some basic realities:

Development is an arduous and long-term process, not susceptible to quick or easy solutions. It requires great efforts to bring about social change—above all by the developing countries themselves.

If there is to be any hope of development, the new nations need the sustained help of the industrial democracies. The Communist countries have been, to all practical purposes, irrelevant to this process and clearly unwilling to assist it.

A serious development effort requires cooperation. Confrontation and artificial voting majorities destroy the psychological basis for a sustained relationship. Parliamentary victories in international forums prove empty if they are not followed by the willing implementation of the minority.

The United States has a vital stake in the health of the world economic system. We need only recall the oil embargo of 1973 to know that interdependence is more than a slogan. That event helped to produce the worst inflation as well as the most severe recession of the postwar period. The price and supply of energy and raw materials, the conditions of trade and investment, the protection of the environment, the use of the oceans and space—these are all issues on which American jobs and livelihood and progress depend. And we know as well that no structure of international relations can be durable if the world remains divided between the rich and the poor, the privileged and the oppressed, the hopeful and the despairing.

We have offered our cooperation in our own interest and in the hope that it will help build a better world. But we insist that others meet us in the same spirit. We will not submit to blackmail or to pressure. We will resist hostile resolutions and unworkable proposals. Artificial majorities and claims to a monopoly on morality in world forums will only undermine public support here and in the other industrial democracies—the only nations capable of contributing effectively to development.

The task is to build consensus based on mutual respect and self-interest. Only in this way can we encourage realistic methods of international collaboration and lay the foundation for a cooperative international economy.

To this end the United States has in the last few years assumed a role of leadership. We have offered comprehensive initiatives in such areas as energy, food, trade, finance, commodities, technology transfer, and the special problems of the poorest countries. We have done so in many international forums: at the Seventh Special Session of the U.N. General Assembly last September; at the Paris Conference on International Economic Cooperation in December; at the Jamaica Conference on world monetary issues in January; at the U.N. Conference on Trade and Development in Nairobi this spring [May, 1976]. Progress has been achieved on many of our proposals; many new institutions and vehicles of cooperation are already underway.

Thus, just as we seek to move beyond a balance of power in East-West relations, so we are seeking long-term cooperation in North-South relations with a view to building a genuine world community.

In this enterprise there is no more important place to start than in our own hemisphere. If we are to build a stable, prosperous, and just world structure, we will need the firm foundations of close bonds with our friends in Latin America.

Our traditional special relationship in the hemisphere antedates our cooperation with other regions of the developing world. We share unique experiences in the Americas—the exploration and development of new continents, the forgoing of nations free from colonial domination, the development of unique human and moral ideals. We have shaped democratic institutions and spurred economic growth, conscious that we benefited greatly from our relationship with each other. We have long held a common interest in shielding our hemisphere from the intrusion of others. We have led the world in building international organizations to serve our cooperative endeavors for both collective security and economic progress.

The challenge we face today is that history—and indeed the very growth and success we have achieved—have complicated our relationship. What used to be a simple perception of hemispheric uniqueness, and a self-contained exclusive relationship, have become enmeshed in the wider concerns we all now have in the rest of the world.

The United States recognizes its global responsibility to maintain the world balance of power, to help resolve the age-old political conflicts that undermine peace, and to help shape a new international order encompassing the interests and aspirations of the more than 150 nations that now comprise our planet.

At the same time, in the sixties and seventies Latin American nations have become steadily more prosperous and self-confident. They are now major factors in their own right on the world scene. Their economics are among the most advanced of the developing world; indeed, they can be said to constitute a "middle class" among the nations of the world, encouraging progress but with an increasing stake in stability. They are increasingly important in the global economy and the world's political forums. And they have a growing sense of solidarity with developing nations in Africa and Asia. Such global involvement is inevitable; at the same time, it inevitably creates new and conflicting pressures on traditional friendships.

The United States has sought to build a new framework in our hemispheric relations which takes into account new realities without sacrificing the precious advantage of our tradition of collaboration.

Most important, given the long period of neglect, real or perceived, our sister republics in the Western Hemisphere now know that we care. We have inaugurated a new dialogue based on equality and mutual respect and on a recognition of sovereign independence. This dialogue does not reflect demands by one side and defense of old patterns by the other. On the basis of the new Latin American strength and self-confidence we now deal with one another with a mutuality of regard and understanding quite impossible a few years or even a decade ago. There is a growing recognition that we have shared concerns as well as different perspectives; that the nations of this hemisphere, where men sought a haven from oppression, have an opportunity to begin a new era of cooperation between industrially advanced and developing countries.

In the past few years the United States has offered initiatives to deal coherently with the catalogue of hemispheric issues: political, economic, and moral. A milestone in this process came at the General Assembly of the Organization of American States in Santiago last month [June 7–10, 1976] where we presented a comprehensive series of proposals:

To advance hemispheric cooperation for development, including trade opportunities and access to contemporary technology;

To strengthen joint efforts to deal with the issue of human rights in the hemisphere; and

To modernize our inter-American system of political consultation.

The United States is demonstrating leadership on all these issues. As a result, Latin American nations expressed their belief at Santiago that a new chapter in hemispheric relations is opening up. There was a climate of candor, of friendship without complexes, and of common endeavor. Our initiatives no longer arise fears of paternalism or domination, but are welcomed again by our sister republics as reflecting mutual interests and our proper role.

We believe that we have inaugurated a new era of inter-American cooperation based on equality and mutual benefit. And we believe, too, that this can serve as a bridge between developed and developing nations everywhere and as an example for the world community.

AMERICA AND THE WORLD

The world has entered a new era. We live in a time marked by change and uncertainty; our age cries out for new patterns of order and new efforts to better the human condition. The challenges of peace and progress and justice require sustained and devoted effort from the responsible nations of the world, and a permanent role of leadership by the United States.

The United States has faced challenge before. No other people could have celebrated its birthday so joyfully or with such optimism about its future. America has always stood for something beyond its own physical strength. The heritage we have celebrated this week is a vision of mankind's most glorious ideals: the equality of all peoples and individuals; the right to life, liberty, and the pursuit of happiness. Only in our free countries where these principles are secure do they sometimes seem platitudes; to a world in which the majority of mankind lives without them they are the burning issues of our time.

America's success has come from its blend of pragmatism and idealism. Our pragmatic tradition has helped us confront reality, neither blinded by dogma nor daunted by challenge. Our idealism has given us not only principles to defend, but the conviction and courage to defend them. In today's world of complexity, we need more than ever a moral compass to steer by, a sense of conviction that enables us to persevere through the stages of the attainable toward the ideal which will always be beyond.

The world no longer offers us the simplicity of detachment or temporary applications of overwhelming power. In a world of interdependence, of unending challenge, and of diversity we must recognize our permanent involvement. Nor do we have reason for apology or hesitation. We remain the most powerful nation on earth. And there is much to accomplish together with the other industrial democracies as long as we offer the leadership for which all free nations long. And other nations will join us in collaborative endeavors if they see us—the world's most powerful nation—offering leadership.

So it is time to put an end to our domestic divisions, for they are the principal obstacle to the full realization of our opportunities. We have consumed too much of our substance in domestic strife; we run the risk that in pursuit of such self-absorption we will lower our sights. All great achievements were dreams before they were realities. The truly creative actions do not grow out of fine calculations of expediency and technical analyses. They require a vision which draws men to far horizons.

Almost 70 years ago Winston Churchill, with that blend of optimism and humanity that so set him apart from lesser men, described our contemporary challenge:

"What is the use of living, if it be not to strive for noble causes and to make this muddled world a better place for those who will live in it after we are gone? How else can we put ourselves in harmonious relation with the great verities and consolations of the infinite and the eternal? And I avow my faith that we are marching towards better days . . ."

So let us avow our faith that we are marching toward better days. And through that act America, with its vast strength, its optimism and idealism, can make a decisive contribution to a world of peace, progress, and justice.

CHAPTER 4

The World Economy—Managing Interdependence[*]

FROM THE EARLY 1950s THROUGH THE LATE 1960s, growing economic interdependence provided the major impetus toward sustained, rapid growth in the world economy. Just 10 years ago, in his last *Economic Report*, President Johnson wrote:

> In the past two decades, enormous progress has been made in building a closely knit international economy. Remarkable growth in the volume of international commerce has gone hand in hand with sustained world prosperity; each has contributed to the other. At times, deep and obvious strains in the international monetary system have imperiled this progress, but these financial difficulties have been weathered without a serious setback in economic growth or world trade.

Much has changed throughout the last decade. In some areas the momentum of the 1960s has continued: an ever-growing share of world production is devoted to international trade. Financial markets have become more integrated internationally and have adapted to the task of recycling unprecedented flows of funds from surplus to deficit countries. For a few countries of the Third World and the southern tier of Europe, rapid export growth—and particularly the shift in the composition of exports toward manufactured goods—have occasioned rapid rises in income growth and production.

There have also been fundamental changes in the international economic system. The most dramatic change, of course, was the breakdown of the Bretton Woods system of pegged exchange rates, and its replacement by a system of market-determined flexible exchange rates. This change has, by and large, helped the world economy to adjust to the severe problems confronting it in the past 5 years—the rise in oil prices and the poor harvests of 1973–74, the subsequent serious recession, persistently high and divergent rates of inflation in most industrial countries, and the hesitant economic recovery outside the United States.

The evolution of the floating rate regime has given individual countries more elbow room for steering their economies in different directions. The extent of independence, however, is limited and the need for some coordination of economic policies remains. Indeed, to some extent the major lesson of 1977 and 1978 is that policy divergences produce severe strains: the rapid expansion in the United States relative to other major industrial countries triggered a large and potentially destabilizing depreciation of the dollar during 1978. The rise in U.S. inflation and the depreciation of the dollar led the United States to implement a policy of monetary and fiscal restraint, in coordination with a coöperative action to deal with exchange-market disturbances.

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[*] Chapter 4 of the Annual Report of the Council of Economic Advisers from: U.S. President, 1977 (Carter). Economic Report of the President Transmitted to Congress January 1979 together with the Annual Report of the Council of Economic Advisers, Washington, U.S. Govt. Print. Off., 1979. p. 135–162, 305.

A second major change from the picture 10 years ago—and one which has been appreciated only slowly—is the pronounced decline in growth dynamism of the industrial world. Growth of potential output has been retarded, but growth of actual output has fallen even further. Aggregate demand has been sluggish throughout the industrial world outside of the United States since 1973. Weak investment and cautious consumers generally slowed private demand. Yet the need to reduce inflation and the large external and public deficits made policy makers cautious. As a result, the overall growth in the countries making up the Organization for Economic Cooperation and Development (OECD) slowed to an average of 3.0 percent over the 1973–78 period, compared to 4.9 percent in the preceding decade.

The reasons for the slowdown of potential output are not fully evident. The slowing of investment virtually everywhere has resulted in an aging capital stock. The growth of trade has slowed, and the earlier economic gains from economic integration have not been repeated. In many countries the hidden unemployment in agriculture has largely disappeared, leaving little of the productivity bonus that accompanies a declining primary sector. Clearly the sharp rise in the cost of energy has led to some costly substitution. To a lesser extent, generally higher and more volatile commodity prices may have retarded some productive sectors.

Finally, both actual and potential output growth has probably been restrained because of new views concerning the value of change and economic growth. Occasionally, a new spirit of "preservationism" has created pressures to protect the existing structure of jobs and wages and bolster weak sectors. In part, this spirit is a reaction to acute problems in key industries: excess capacity in steel, shipbuilding, and textiles, for example, burdens many economies. But a more cautious attitude has also increased the difficulties of shifting resources from declining to expanding sectors. Preservationist pressures encourage protectionist trade measures or internal subsidies that could make the world economy even less dynamic and more prone to inflation. The adventurous spirit that once characterized much industrial activity and is vital to rapid structural and economic change may have been suppressed at least temporarily by the uncertainties of the recent past.

Managing interdependence today is a major challenge. We have been through a period in which—in contrast to the robust postwar expansion—growth potential has declined and inflationary pressures have increased. To some extent these conditions may prevail for a number of years. In the past, numerous structural factors favored rapid expansion and rising productivity: relative commodity and energy prices fell, trade barriers were lowered, new technologies came in quickly, and economies of scale were realized. These favorable factors have been weakened or reversed. The challenge to policy—at home and abroad—is twofold: to steer our economies safely through these more hazardous waters and to create conditions that favor sustained economic growth. Improved international coordination of domestic policies will be essential to accomplish both of these tasks.

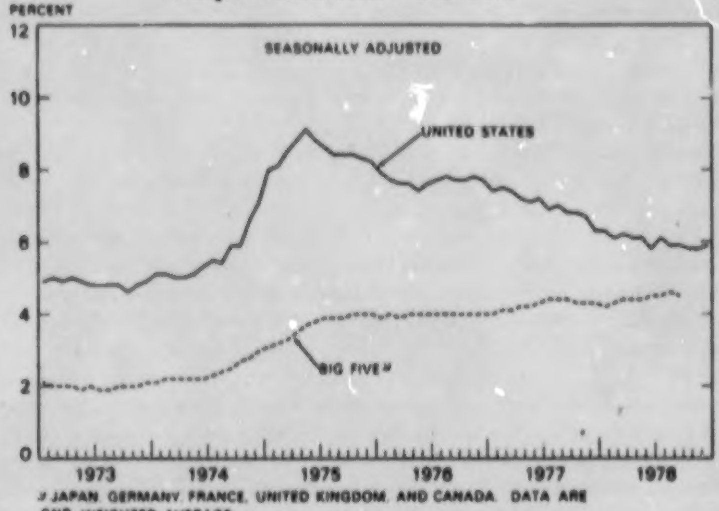
THE GLOBAL ECONOMY: DEVELOPMENTS AND PROSPECTS

In many ways 1978 can be seen as a year of transition for industrial countries. Here in the United States economic growth began to slow after a strong recovery earlier. In the other major industrial countries, where recovery had been hesitant, growth accelerated somewhat, though not enough to reduce excess capacity substantially or to prevent a continued upward drift in unemployment (Chart 9).

The inflation rate accelerated in the United States. In most other industrial countries, inflation rates, which on average exceeded those in the United States during 1974–77, continued to decline. As a result, the rate

Chart 9

Unemployment in the U.S. and Five Major Industrial Countries



1/ JAPAN, GERMANY, FRANCE, UNITED KINGDOM, AND CANADA. DATA ARE GNP-WEIGHTED AVERAGE.

SOURCES: DEPARTMENT OF LABOR AND COUNCIL OF ECONOMIC ADVISERS.

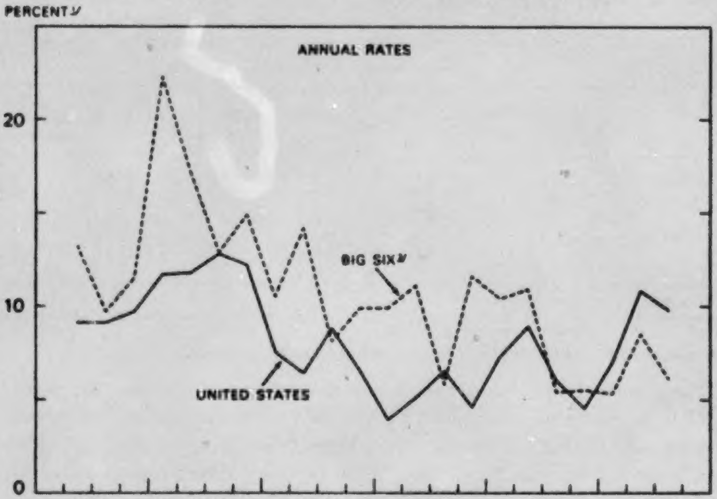
of inflation in the United States in 1978 was higher than the average level for the major foreign countries (Chart 10).

External positions also changed markedly during 1978. For the OECD countries as a group the combined current account deficit declined sharply. The deficit of the United States widened somewhat, but this was more than offset by the large rise in the combined surplus of the other major countries, especially Japan, and a marked decline in the combined deficit of the smaller OECD members. Nevertheless as the year progressed there were increasing indications that the major imbalance between the positions of the United States and Japan was beginning to be reversed. Both the Japanese surplus and the U.S. deficit were smaller in the second half of 1978 than in the first half.

The year 1979 should see some correction in the cyclical divergence that has arisen since the oil crisis. As shown in Table 31, the anticipated slowing of growth in the United States is matched by an expected slight rise of growth abroad. For the first time since 1975, growth abroad is likely to exceed growth in the United States. (It should be noted that the growth rates presented here are year over year, rather than fourth quarter over fourth quarter as generally presented elsewhere in this *Report.*)

Chart 10

Consumer Price Inflation Rate in the U.S. and Six Major Industrial Countries



1/ PERCENT CHANGE FROM PRECEDING QUARTER AT ANNUAL RATE

2/ JAPAN, GERMANY, FRANCE, UNITED KINGDOM, CANADA, AND ITALY. DATA BASED ON 1977 GNP/GDP WEIGHTS AND EXCHANGE RATES

SOURCES: DEPARTMENT OF LABOR AND NATIONAL SOURCES

TABLE 31.—*Annual growth in real GNP in the United States and other major industrial countries, 1960–79*

[Percent change]

Country	1960–74 average	1975	1976	1977	1978[1]	1979[2]
United States	3.6	−1.3	5.7	4.9	3.9	3.3
Big Six[3]	5.8	−.3	5.4	2.3	2.8	3.9

[1] Preliminary.
[2] Forecast.
[3] Japan, Germany, France, United Kingdom, Canada, and Italy; OECD estimates. For 1960–74 average, based on 1970 GNP/GDP weights and exchange rates; for 1975–79 based on 1977 GNP/GDP weights and exchange rates.

Sources: Organization for Economic Cooperation and Development and Council of Economic Advisers.

Inflation rate differentials are also expected to narrow somewhat during 1979, in line with the anticipated slowing of inflation in the United States and a possible increase in inflation in some foreign countries. Trade and current account imbalances are expected to diminish further as a result of the shift in relative growth and of the large exchange rate movements during 1978.

GROWTH AND INFLATION

In the major foreign countries there was a modest rise in the growth of gross national product (GNP) in 1978. Table 32 records the growth rates of GNP during 1977 and 1978 for each of the major foreign countries and the United States. Also included are two columns showing the average annual growth of GNP prior to 1974 as well as the average rate of growth since then.

TABLE 32.—*Annual growth in real GNP in major industrial countries, 1960–78*

[Percent change, except as noted]

Country	1977	1978[1]	1960–73 average	1974–78 average[1]	GNP shortfall in 1978 (percent)[2]
United States	4.9	3.9	3.9	2.3	8.1
Japan	5.2	5.8	10.5	3.7	37.3
Germany	2.6	3.0	4.8	1.7	16.0
France	3.0	3.0	5.7	2.8	14.7
United Kingdom	1.6	3.0	3.2	1.0	11.5
Canada	2.7	3.5	5.4	3.4	10.2
Italy	1.7	2.0	5.2	1.9	17.1

[1] Preliminary.
[2] Difference between actual GNP and the level that would have been reached if growth since 1973 had equaled its 1960–73 trend rate, expressed as a percent of actual GNP.

Sources: Organization for Economic Cooperation and Development and Council of Economic Advisers.

The final column shows the percentage difference between the actual GNP in 1978 and the level of GNP that would have existed in 1978 if growth had proceeded after 1973 at its 1960–73 trend rate. The gap recorded in the last column is not meant to indicate the precise difference between actual and potential output. Few deny that potential output growth has slowed everywhere in recent years, and in some cases sharply, although considerable uncertainty remains about the current underlying trend for potential output. What the gap does indicate is that, for whatever reasons, the major industrial countries outside the United States have witnessed a dramatic reduction in growth since the oil crisis.

Evidence that at least part of the slower growth is due to a slowdown in potential growth is shown in Table 33. Each of the large industrial countries has shown significantly lower productivity growth in the last 5 years compared to the earlier period. Clearly, part of the poor productivity performance is due to low utilization rates. Even after correcting for utilization and recognizing analytical shortcomings in the productivity measure, however, some slowdown is evident. The largest absolute decrease occurred in Japan, where growth in GNP per worker slowed from 8.9 to 3.4 percent annually.

TABLE 33.—*Annual growth in GNP per employed worker in major industrial countries, 1964–78*

[Percent change]

Country	Average	
	1964–73	1974–78[1]
United States	1.8	0.1
Japan	8.9	3.4
Germany	4.7	3.0
France	4.5	3.0
United Kingdom	3.2	.8
Canada	2.4	.6
Italy	5.4	1.1

[1] Estimate.

Source: Organization for Economic Cooperation and Development.

Whatever the new rates of potential growth may be, the actual GNP growth outside the United States was apparently not above the underlying potential growth in 1977 and 1978. In the fifth year after the onset of recession, recovery toward a fuller utilization of potential among countries outside the United States continues to be extremely hesitant and incomplete.

To some extent the slowing of potential growth and the weakness of actual growth relative to potential since 1975 are tied together. In Japan, for instance, the sharp fall in potential growth reduced capital requirements and hence reduced required investment as a share of output. Because this fall was not matched by a decline in the personal saving rate, a problem of excess saving emerged. This imbalance was absorbed partly by the rise in the external surpluses and government budget deficits and partly by the decline in income and production relative to potential output. In Japan, as in other countries, low rates of actual investment constitute a major reason for the hesitant recovery of demand. At the same time, as mentioned earlier, sluggish investment has led to a marked aging in the capital stock and has further checked the growth of potential output by limiting productivity increases.

The principal factors constraining more expansionary policies during the current recovery have been persistently high rates of inflation in most countries and the resulting judgment that relatively cautious fiscal and monetary policies were needed. Even in those countries making notable progress in reducing inflation by 1977—particularly Germany and Japan—fear of renewing inflation continued to dampen enthusiasm for more expansionary fiscal and monetary policies.

In 1978 constraints on policies eased somewhat outside the United States as rates of inflation declined almost everywhere (Table 34). For the United Kingdom and Italy, where the rates had been highest, the decline was impressive. As a result of relaxed constraint, fiscal policies also tended to become significantly more expansionary in the major foreign countries: according to OECD estimates, the direct impact of fiscal policy shifts in 1978 amounted to over one-half of 1 percent of GNP for the major foreign countries, excluding Japan, and to over 2 percent for Japan.

TABLE 34.—*Changes in consumer prices in major industrial countries, 1976–78*

[Percent [1]]

Country	1976	1977	1978 [2]
United States	5.8	6.5	7.6
Japan	9.3	8.0	3.9
Germany	4.6	3.9	2.7
France	9.6	9.5	9.2
United Kingdom	16.6	15.8	8.3
Canada	7.5	8.0	9.0
Italy	16.8	17.0	12.2

[1] Changes measured from year average to year average.

[2] Estimate.

Source: Department of Labor, Board of Governors of the Federal Reserve System, and Council of Economic Advisers.

The 1978 pattern of changes in growth and inflation rates was heavily influenced by the marked decline of the dollar and the consequent appreciation of most other major currencies. In countries where exchange rates appreciated, it is broadly true that GNP growth lagged behind the growth of domestic demand and that inflation rates declined. In this environment fiscal policy became more expansionary during the course of the year. These shifts in fiscal policy were both necessary and appropriate. They were necessary because extra stimulus was required to offset the negative effect on GNP of the adverse shift in real net exports. And they were appropriate because the reduction in inflation due to currency appreciation gave policy makers breathing room to shift toward more expansionary policies. Moreover in Germany, and even more in Japan, a reduction in the current account surplus required a shift in policy to make sure that shifts in export and import volume would eventually become large enough to offset the effects of the currency appreciation on terms of trade.

For the United States the opposite set of circumstances prevailed. A weak external sector, accelerating inflation, rapidly declining unemployment, and a depreciating currency made it necessary to shift toward a more restrictive fiscal and monetary policy. Indeed, this shift occurred during the year.

The need to realign and coordinate economic policies, both in the United States and abroad, so as to promote external adjustment and reduce divergences in economic performance across countries was increasingly recognized during 1978. In the course of meetings that culminated in the Economic Summit at Bonn in July 1978, a significant degree of coordination was realized. At the Bonn meeting the leaders of the seven largest industrial countries discussed the major goals and problems in the world economy, and a Concerted Action Program was devised in which each country made appropriate specific commitments.

The Bonn Summit marked a turning point, particularly for the United States. The United States noted that curbing inflation has become the top priority of economic policy. The President therefore pledged to take specified actions to reduce the U.S. inflation rate, obtain a more rapid reduction in our current account deficit, and adopt an energy policy which would, by 1985, cut our imports of petroleum by 2.5 million barrels per day.

In addition, Germany and Japan proposed steps to increase growth and thus reduce external surpluses: Germany to provide additional fiscal stimulus totaling 1 percent of GNP; Japan to achieve a 7 percent growth in real GNP between March 1978 and March 1979. The other participating countries (France, Italy, the United Kingdom, and Canada), whose high rates of inflation provided less scope for specific action, made broadly complementary commitments. At the same time, each country recognized the overriding importance of not allowing sluggish growth, sectoral difficulties, or trade imbalances to serve as pretexts for actions that would undermine the framework of free trade among nations. A joint commitment, covered more fully later in this chapter, was adopted to secure a rapid and successful outcome for the Multilateral Trade Negotiations.

Considerable progress has been made in meeting these commitments. As discussed earlier in this *Report,* the United States has in place a major anti-inflation program and has shifted both fiscal and monetary policies toward restraint. The 1978 National Energy Act, signed at year's end, establishes a comprehensive framework for rationalizing energy policy and reducing oil imports along the lines discussed at Bonn. Germany completed legislation in December 1978 that fully implements its own commitment. Although Japan began in September to carry out a supplementary fiscal program to stimulate growth, it now seems likely to fall well below the 7 percent growth target.

The Concerted Action Program adopted at Bonn marks an important step in international economic cooperation. On a substantive plane, the measures taken helped put the major economies onto more balanced and sustainable paths. More important is the symbolic significance: it is now clearly recognized at home and abroad that, in a world where countries are interdependent, policy choices by one nation directly affect economic performance in others. If some countries grow very slowly, their trading partners will be forced to abandon dynamic export industries; if one country attempts to protect its industries, at the border or by domestic subsidies, others will have to retrench; if one nation pursues extremely rapid growth or inflationary policies, the resulting exchange rate depreciation may lead to uncertainties and market disorders. Increasing awareness of these linkages and acceptance of the responsibilities they imply represent the goal of policy coordination exemplified by the Summit.

PROSPECTS

Although the shift toward more rapid growth abroad is a welcome development, the world economy continues to face difficult challenges. GNP growth, while expected to maintain the 1978 rates, will remain low by the standards of the 1960s, and it will be hard to generate enough jobs to reduce unemployment. In some countries more extensive use of specific job programs and special incentives to reduce structural unemployment of young workers must effectively supplement demand management policies if further increases in unemployment are to be avoided.

Most economies also face excess capacity in basic industries such as steel, textiles, and shipbuilding. The consolidation of these sectors by reducing capacity, and the resulting loss of jobs, aggravate labor market problems. Ways must therefore be found to smooth the transfer of workers from declining to expanding sectors. Securing a more rapid rate of job creation is made harder by continued low rates of investment in plant and equipment. While some growth in investment occurred in 1978, the basic circumstances have not changed substantially. Excess capacity remains large and prospects indicate only a moderate growth in demand. In this environment a sharp acceleration of investment during 1979 is not foreseen.

While faster growth would greatly benefit most foreign economies, inflation rates in all but a few OECD countries remain too high for governments to pursue policies that are significantly more expansionary. Even relatively restrictive macroeconomic policies will bring only a gradual decline in inflation. In some countries inflation may accelerate again as the favorable effects of exchange rate appreciation and commodity price declines wear off.

Thus, despite some easing of constraints on policy in countries outside the United States, the economic environment presents difficulties. Few easy solutions are available; and according to an increasing number of observers, it will take a continued effort to bring about conditions more favorable to sustained economic growth.

CURRENT ACCOUNT DEVELOPMENTS AND PROSPECTS

In 1978 there were marked changes in global payments positions (Table 35). First, the large current account surplus of the countries making up the Organization of Petroleum Exporting Countries (OPEC) diminished sharply and unexpectedly from about $32 billion in 1977 to an estimated $11 billion in 1978.

TABLE 35.—*World current account balance,*[1] *1975–78*
[Billions of dollars]

Country	1975	1976	1977	1978[2]
OECD countries	0.3	−19.0	−27.5	0.5
United States	18.4	4.3	−15.3	−17.0
Big Six[3] and Switzerland	−3.8	−3.7	13.5	33.5
Other OECD	−14.3	−19.4	−25.7	−16.0
OPEC countries	27.3	37.0	31.5	11.0
Non-oil developing countries	−38.5	−26.0	−24.0	−34.0
Other[4]	10.9	6.0	20.0	22.5

[1] OECD basis.
[2] Estimate.
[3] Japan, Germany, France, United Kingdom, Canada, and Italy.
[4] Reflects errors and asymmetries, as well as balances with omitted country groups.

Sources: Organization for Economic Cooperation and Development and Council of Economic Advisers.

This remarkable decline resulted from volume and price effects in about equal measure. The volume of OPEC oil exports actually fell somewhat in 1978, a consequence of the slackened pace of growth in energy demand in the industrial countries and the rapid 1978 expansion of other sources of oil. North Sea, Alaskan, and increased Mexican production, accounted together for a rise in production of 1.2 million barrels per day, or roughly 4 percent of total OPEC production.

At the same time, the volume of imports into OPEC countries continued to grow at a significant though slowing rate, a result of the momentum of on-going development plans in a number of OPEC countries. Price movements have also been important in reducing the OPEC surplus. The dollar price of oil remained roughly constant, while import prices rose.

Second, in the so-called non-oil developing countries (that is, the poorer countries outside of OPEC and the OECD) the combined deficit expanded considerably last year. The terms of trade, which had been generally favorable in 1977, turned against such countries in late 1977 and early 1978. Late last year, however, the terms of trade again strengthened appreciably. Borrowing conditions for most of these developing countries remained favorable, and many of them borrowed substantial amounts to service outstanding debt, maintain the growth of their imports, and increase their gross reserves for the third consecutive year.

The most striking change in 1978, however, was the disappearance of the OECD deficit. The aggregate deficit of the OECD countries, $28 billion in 1977, gave way to a small surplus in 1978. This turnaround was the second largest recorded year-to-year change in the OECD external position; it was exceeded only by the large shift from surplus to deficit which followed the OPEC price rise. It was surprising that the decline passed virtually unnoticed and had little effect on developments during the year compared to those occurring in the 1974–75 period.

The OECD can be usefully divided into three groups. The first comprises countries in surplus; the second contains small countries, chiefly in deficit;

and the United States is the third. Starting with the surplus countries, one should note that the largest part of the decline in the OECD deficit is accounted for by the rise in the combined surpluses of Japan, Germany, France, Italy, and Switzerland. These countries, along with the United Kingdom, experienced strong gains in their terms of trade—that is, the prices received for exports rose more rapidly than prices paid for imports, principally because of appreciation in their exchange rates.

A gain in the terms of trade affects the favored country in two ways. First, it increases income and thus tends to have a stimulating effect on aggregate demand similar to that of a tax cut. Second, after some time, however, the higher export prices tend to depress the volume of exports, while the lower import prices tend to raise the volume of imports, thereby reducing aggregate demand. Table 36 records the movement in current account balances for each of the countries named above, except Switzerland, and shows the relative size of the two different effects in 1978: the ratio between the gain in terms of trade and domestic demand, and the ratio between the change in the volume of net exports and GNP.

TABLE 36.—*Current account balances for selected major industrial countries, 1976–78*

Country	Current account balance [1]			Gain in terms of trade as percent of domestic demand, 1978 [2] [3]	Change in volume of net exports as percent of real GNP, 1978 [2]
	1976	1977	1978 [2]		
	Billions of dollars			Percent	
Japan	3.7	10.9	20.0	1.9	−0.3
Germany	3.8	3.7	6.0	.6	−.3
France	−6.1	−3.3	2.0	.8	.3
United Kingdom	−2.0	.5	−.5	1.2	−1.0
Italy	−2.8	2.3	5.5	.4	.8

[1] OECD basis.

[2] Estimate.

[3] The gain in terms of trade is the percent change in export prices times 1977 export value minus the percent change in import prices times 1977 import value.

Sources: Organization for Economic Cooperation and Development and Council of Economic Advisers.

Even though estimation of gains in terms of trade is subject to a considerable margin of error because of serious measurement difficulties, the results are striking. These five countries experienced very large gains in income from the terms of trade in 1978 and, excepting the United Kingdom, had little or no offset from the declining volume of net exports. The income gains, however, do not appear to have been matched by a corresponding rise in the growth of real output, especially when allowance is also made for the expansionary shifts in fiscal policy. A possible explanation for this relatively weak multiplier effect is that, because these income gains were perceived to be transitory, they were largely absorbed in increased household and corporate saving, rather than in increased expenditures.

The second group of OECD countries, comprising the smaller nations, in the aggregate reduced their deficits in 1978 by about $10 billion. This reduction was especially welcome in view of the very large deficits these countries had run from 1974 to 1978, when their net indebtedness grew by close to $80 billion. Indeed, external positions had become unsustainable for a number of countries in this group and severe retrenchment was necessary. Stabilization programs were developed in connection with upper credit-tranche drawings from the International Monetary Fund for Portugal and Turkey. Governments in the Scandinavian countries acted to forestall further accumulation of debt that might well have become a source of difficulty in a few years. For still others, the extent of improvement in their current account was limited by adverse shifts in the terms of trade stemming from the fall in a number of raw materials prices. For the group as a whole, the decline in current account deficits can be explained almost entirely by the reduction in import volumes relative to export volumes.

The United States stands alone in the third category. Throughout the postwar period the growth of U.S. imports tended to be greater in relation to domestic growth than the growth of exports in relation to growth abroad. Until 1975 a rough balance between import and export growth was maintained by the fact that growth abroad tended to exceed U.S. growth. From 1975 through 1978, however, growth in the United States surpassed the average growth abroad. As a result, the current account of the United States shifted sharply. In 1977, a year in which U.S. economic growth exceeded that of its trading partners by about 1½ percentage points, the U.S. current account shifted by almost $20 billion, from a surplus of $4.3 billion to a deficit of $15.3 billion. Roughly three-fourths of this shift is accounted for by the more rapid growth of merchandise import volumes compared to export volumes. The remainder of this shift reflected changes in the terms of trade and in the composition of trade, only partly offset by gains in service transactions.

On the basis of preliminary estimates the current account shifted toward deficit in 1978 by a further $1.7 billion. There was, however, substantial improvement from the first half of the year to the second, when growth in export volume picked up and import growth began to moderate. Despite the depreciation of the dollar during this period, the expected adverse shift in the terms of trade was restrained to a significant degree by the constancy of the price of oil imports and by the general increase in the prices of manufactured goods relative to the prices of primary commodities.

The shifts that occurred in 1978 in current account positions among the countries of OPEC, the non-oil developing countries, and the OECD countries are not likely to be reversed in 1979. The large oil price increase announced by OPEC last December will seriously complicate the task of economic management in the industrial and non-oil developing countries. This price increase is not expected to result in a substantial widening of the OPEC surplus from 1978 levels, however, since imports by OPEC will also continue to rise. It can be said that the industrial countries are now paying the "OPEC oil tax" largely in current goods and services rather than

I O Us. As a result, the so-called recycling problem has become much less troublesome—though the surpluses of a few individual OPEC countries will continue for years to come. More generally, the traditional pattern of resource flows between countries, in which the major industrial countries are net capital exporters to the developing countries and to other poorer countries within the OECD, appears to have been firmly reestablished.

Barring a substantial run-up in commodity prices, the deficits of the non-oil developing countries are likely to rise somewhat in 1979. Such a rise in deficits would appear to be consistent with the strong liquidity positions of many countries in this group, the ability of a growing number of countries to borrow successfully on international financial markets at lower interest spreads and longer maturities, and the apparent willingness of banks to increase their lending to developing countries despite a few isolated debt rescheduling problems during 1978.

Among industrial countries of the OECD, a more balanced distribution of surpluses and deficits is likely to emerge in 1979. The U.S. current account deficit is expected to decline considerably from the levels at the end of 1978, dropping to about an annual rate of $2–$8 billion by the end of 1979. This reduction will result from two conditions: first, the effects of slower U.S. economic growth on imports; and second, a steady and vigorous growth in exports as markets continue to adjust to the improved price competitiveness of American goods and services that resulted from last year's depreciation of the dollar.

Some decline, too, is anticipated in the surpluses of Japan and Germany. Expectations for the decline of the Japanese surplus are grounded primarily in the anticipation of a further fall in the volume of Japanese exports. Import volumes rose only moderately in 1978 after allowance for large accounting transactions made under the emergency import program. They are unlikely to accelerate strongly this year, despite the appreciation of the yen, because of the relatively closed structure of many Japanese import markets. This one-sidedness in adjustment by Japan is likely to intensify the difficulty of reducing the Japanese surplus to a sustainable level over a longer period. The need for a sustained reduction of barriers in Japanese import markets is well recognized by Japanese officials, and extensive discussion between Japan and the United States during 1978 has laid the groundwork for progress toward this end.

INTERNATIONAL FINANCIAL DEVELOPMENTS

For the international financial markets 1978 was a year of unusual instability. Serious questions were raised at home and abroad about the functioning of foreign exchange markets, culminating at year-end with the charter of the new European Monetary System and with the dollar support measures of the United States. These developments were responses to increased volatility and to disorderly conditions in the foreign exchange marhets. In the case of the European Monetary System they arose also from concern about the undesirable side effects of a system of floating exchange rates for closely integrated economies and from the need to foster closer economic integration in Europe.

THE OPERATION OF FLEXIBLE EXCHANGE RATES

The developments of 1978 must be seen as a part of the continued evolution of international financial arrangements. It is therefore appropriate to begin this discussion by reviewing the role of floating exchange rates in macroeconomic adjustment over the 1973–78 period.

Floating Rates in Principle

The role of floating exchange rates can best be seen in the need for adjustment among national economies. All countries are continually subjected to shocks that lead both to internal imbalances (excessive or deficient utilization of domestic resources) and to external imbalances (foreign trade or capital flows at unsustainable levels). A system of flexible, market-determined exchange rates (or, in short, "floating" rates) allows more automatic external adjustment than a system of fixed parities, and thus leaves more scope for domestic macroeconomic policies to adapt to the changing requirements for internal balance.

External adjustment occurs as exchange rates move to equilibrate trade and net capital flows. More precisely, for a given change in official holdings, the rate will move to a level that either brings the value of goods and services exported and imported into balance or induces changes in private asset holdings to finance the discrepancy.

The equilibrating mechanism works on both the capital and current accounts. For a country incurring a large current account deficit, the currency depreciates to reduce the current account deficit by increasing the country's price competitiveness. That process, however, takes time. In the interim, currency movements will induce private holders of wealth to accumulate the country's assets to the extent necessary to finance the deficit.

The second feature of an idealized system of floating exchange rates can be seen as a consequence of the first. Because floating rates tend to assure external equilibrium, countries can enjoy greater independence of macroeconomic policies and performance. Under a regime of fixed exchange rates, the extent to which a country's macroeconomic policies could diverge from those of its trading partners was limited in important ways. Divergent policies would lead to trade imbalances, with expansionary countries moving toward deficit and restrictive countries toward surplus. There was no automatic mechanism to generate the needed capital movements to support the imbalances. Indeed, outflows of capital from countries pursuing relatively expansionary policies to countries pursuing restrictive policies sometimes exacerbated disequilibria in overall balance of payments positions. A country's freedom to engage in independent macroeconomic policies was thus constrained by its capacity to absorb or lose reserves.

Under a floating rate regime, however, wide divergences of macroeconomic policies would, in principle, be possible. For those countries pursuing rapid growth through expansionary macroeconomic policies or those accepting high inflation, the presence of a depreciating currency would allow the balance of payments to remain close to equilibrium.

Critiques of Floating Rates

For more than 5 years the major economies have functioned under a floating rate regime. The new regime has been successful in permitting the industrial economies to absorb shocks that were unprecedented in the postwar period. At the same time, overall economic performance and exchange market behavior have been much less satisfactory than was expected, leading many to wonder whether the exchange rate regime was at least partly responsible for the poor performance.

Critics have argued that floating rates have had four failings: they have not eliminated balance of payments disequilibria; they have not allowed the degree of policy independence that had been anticipated; they have proved inflationary; and they have introduced major new elements of instability and uncertainty to financial markets.

First, floating rates clearly have not eliminated current account surpluses and deficits. These deficits and surpluses have not, in general, fallen from the levels of the late 1960s and early 1970s and, on many occasions, some have been even higher.

Such an observation, however, does not imply a failure of floating rates to perform their adjustment function. The imbalances that have occurred have not usually resulted from floating per se, but from the greater divergence of macroeconomic performances and from the exceptionally large shocks to the international system, such as OPEC price rises and large increases in agricultural and commodity prices. Exchange rate changes have generally responded well to these deficits and surpluses and have helped to move economies back toward external equilibrium, even if not as quickly or as smoothly as originally hoped. A balance of payments equilibrium, moreover, does not necessarily require that the current (or trade) account should be balanced, only that the current or trade account deficit or surplus be willingly financed. In fact, deficits or surpluses on current account may well represent the equilibrating counterpart to structural or "autonomous" capital inflows or outflows.

In contrast, during the final years of the Bretton Woods system, balance of payments disequilibria that resulted at least partly from divergent macroeconomic performances led to several serious and protracted balance of payments crises. Normal trade and investment patterns were disrupted as governments responded to these disequilibrium situations by imposing trade and capital controls and other emergency measures before they were finally forced to change their exchange rate parities.

A second cause of concern exists because floating has led to less policy independence than had been anticipated. To be sure, countries have been significantly more independent than in prior years, especially in the realm of monetary policies. A good example lies in the ability of Germany, during the early phase of the current expansion, to pursue a relatively restrictive monetary policy, while that of the United States was relatively expansionary.

Although independence has been greater than with fixed rates, it has by no means been complete under floating. There have been obvious limitations to policy flexibility, partly because exchange-rate changes cannot insulate national economies from their partners' performance or from international economic shocks. We have learned that in an increasingly interdependent international economic system floating exchange rates do not free countries from the effects of their neighbors' economic policies and performances. Similarly, countries must recognize their responsibility to act in ways that do not inflict excessive adjustment costs on others.

The third major criticism of the floating rate system has been that it contains an inflationary bias. Two lines of argument have been presented to support this view: first, that floating generates inflation because it fails to impose needed discipline on the conduct of fiscal and monetary policies; second, that because of asymmetries and ratchets the increased inflationary pressures associated with depreciation are not matched by commensurate downward price pressures in countries whose exchange rates are appreciating. Thus, it is argued, the net effect of exchange rate changes is inflationary for the world as a whole.

Neither of these arguments is entirely convincing. Regarding the first argument—presumed lack of discipline—it is important to note that even without external pressures there are clearly powerful internal forces which oppose inflation. Recent experience in the United States and some countries of Europe, where large current account deficits and currency depreciations have led to quite restrictive economic policies, indicates the extent to which difficult stabilization policies will be undertaken even in a flexible exchange rate system.

Moreover, a regime of fixed rates allows inflation to spill over the borders. Price rises originating in one country spill over into other countries directly if exchange rates cannot shift. Indeed, to the extent that inflation originating in one country is shared by others when exchange rates are fixed, discipline in the conduct of fiscal and monetary policies may be weaker than under floating rates, where the full inflationary impact of inappropriate policies is felt domestically.

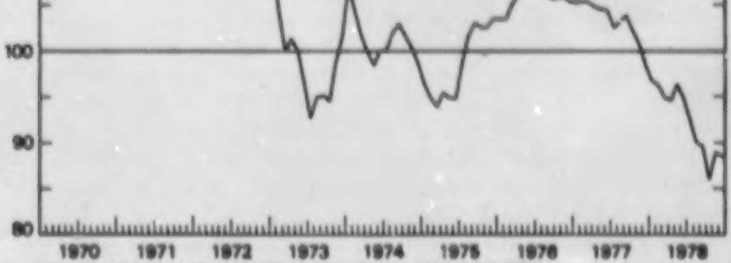
The evidence to support the second argument—that there are asymmetries in the effects of exchange rate changes on inflation—is mixed. While it is true that there exists considerable evidence of increasing downward rigidity in the levels of prices and wages in a number of countries, there is no comparable evidence that rates of inflation are less responsive to currency appreciation than to depreciation.

Finally, factors other than floating exchange rates provide a more compelling explanation for the high and persistent inflation in the industrial countries: slower productivity growth, excessive demand pressures, external shocks such as those created by OPEC, and structural changes and rigidities in domestic labor and product markets.

A final criticism of floating has been that it induces excessive volatility in exchange rate movements. Chart 11 presents the path of the trade-weighted dollar since 1970, using an index of dollar movements against the 10 major currencies, and 1972–76 total multilateral trade shares as weights. In addition to these longer-run swings in rates, it is certainly true that day-to-day movements in exchange rates have been larger in the float than in the preceding Bretton Woods era. It is difficult to determine whether these movements have been excessive. In a fixed rate system such as Bretton Woods, day-to-day variability is sharply reduced by the active intervention of central banks to keep the rate within a narrow range. Furthermore, for as long as the range remains credible, private actions tend to keep the rate within the range whenever transient factors lead to a rate movement to the upper or lower limit. Day-to-day variability is thus largely eliminated. On the other hand, the fixing of exchange rates while economic conditions are changing makes it likely that exchange rates will increasingly

Chart 11

Weighted-Average Exchange Value of the U.S. Dollar



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM diverge from levels that would be consistent with underlying economic factors. Eventually the credibility of the range is challenged by market participants, and potentially disruptive speculative attacks can then occur until rates are forced to new, more appropriate levels.

In a floating rate system, day-to-day variability of exchange rates is inevitable as market participants respond to new information about economic developments that alters their perceptions about appropriate exchange rate patterns. Indeed, these day-to-day movements in principle constitute the means of accomplishing longer-run adjustment of exchange rates to changing economic circumstances. This fundamental role of exchange rate movements raises the question whether the observed short-run variability of exchange rates has been larger than was required to allow the necessary medium-term flexibility. This question is complex and has not been thoroughly addressed. A preliminary examination of recent experience and related studies by the Council of Economic Advisers has uncovered mixed evidence. In some cases, short-run variability over the last 5 years has been broadly commensurate with longer-run changes, while in other cases short-run changes have been less than might be consistent with the longer run. No cases of persistent, excessive volatility were found.

There is a sense in which the floating rate system itself may have led to excessive volatility—through the relaxed constraints on macroeconomic behavior. As noted above, a floating rate system allows greater divergence in macroeconomic experience. Unfortunately, when greater scope for divergent policies and performance is allowed, market uncertainty about appropriate exchange rates is also increased. The uncertainty, in turn, can cause market exchange rates to move in an erratic and disorderly fashion as market participants react, and overreact, to transitory bits of information and rumors.

Greater exchange rate noise and uncertainty are among the costs of a floating rate system. Achievement of greater stability in exchange rate markets is dependent on the closer and more effective coordination of macroeconomic policies among countries and on the continuing efforts of each country to sustain macroeconomic policies that are consistent with internal and external adjustment.

In general, however, the evidence, although not conclusive, does indicate that floating has worked well over the long run, especially considering the magnitude of the shocks to the international financial system. In fact, given these shocks, it is not clear that any system other than generalized floating would have been viable during the period. Exchange rate movements, while large, have broadly responded to economic fundamentals, have facilitated adjustment, and have tended to move the system toward rather than away from greater stability. If exchange rates are at present too volatile for some countries, steps to increase the coordination of macroeconomic policies could be helpful. Recognition of the current level of interdependence through improved coordination across countries may help to bring greater stability to the foreign exchange markets as well as to provide an international environment that is favorable to domestic policy goals.

IMPORTANT 1978 DEVELOPMENTS

The summer and fall of 1977 marked the beginning of a protracted fall in the value of the dollar and an increase in the day-to-day volatility of exchange rates in general. Both of these trends continued through the first 3 quarters of 1978.

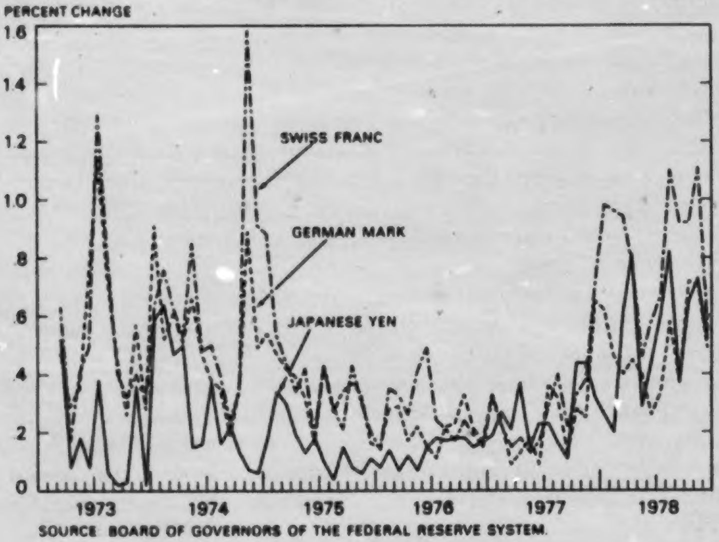
The Variability of Exchange Rates and Depreciation of the Dollar

The extent of exchange rate variability can be seen in the average day-to-day change of major currencies. In general the daily variation in exchange rates decreased between 1973 and 1975, remained comparatively small from 1975 to about the middle of 1977, and then increased markedly in the second half of 1977 and in 1978 (Chart 12).

The decline in variability from 1974 to the 1975–77 period is probably due to a lessening of shocks to the world economy and the gradually growing ability of market participants to work with a regime of floating rates. The

Chart 12

Monthly Average of Daily Exchange Rate Changes



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

source of the sudden increase since late 1977 is less clear. Only to a small extent can it be explained by the fact that the computed variability is somewhat amplified when the level of the exchange rate is moving sharply in one direction rather than fluctuating around a steady trend. A more plausible explanation was the heightened uncertainty about the dollar's future equilibrium level in view of the growing current account deficit, a subsequent acceleration in inflation in the United States, and, for a time, uncertainty about the response of U.S. economic policies to these developments.

The value of the dollar also began to change dramatically in late 1977. Chart 11 shows the trade-weighted value of the dollar against the major currencies for 1970–78. Two distinct periods can be identified during the recent experience. From September 1977 through March 1978 the dollar fell by 8.7 percent on a weighted average basis against other currencies. During this period the markets tended to focus on the rapid widening of the U.S. trade and current account deficits and their expected persistence. Even though a substantial portion of the deficits could be accounted for by the cyclical position of the United States relative to its major trading partners, growth forecasts suggested that this cyclical divergence would not soon be eliminated.

After a brief period of leveling off in April and May 1978, a second dollar decline began in early June and carried through until the end of October. Some part of this renewed decline can be accounted for by the acceleration and persistence of inflation in the United States, which aroused much concern in international financial circles. From a purely technical point of view, this is not a sufficient explanation, however, since the inflation rate in the United States, while substantially higher than that in Germany, Switzerland, and Japan, was not much higher than the average level among all our major trading partners. And the parallel shift in interest rate differentials in favor of the dollar was more than sufficient to offset the change in underlying inflation in the United States. Finally, the dollar's fall came in the face of increasing evidence that the U.S. current account position was improving markedly.

By the end of October, then, there was considerable evidence that the primary reason for the dollar's fall was the uncertainty in foreign exchange markets. Little attention was paid to the anti-inflation message on October 24. Market participants continued to shift out of dollars despite an apparent consensus of market expectations that the dollar was undervalued from a long-run point of view. Almost all market participants commenting in the press or in discussions during the fall of 1978 expected an eventual turnaround of the dollar. Only the timing and the duration of the expected recovery were uncertain. Market participants, however, were highly uncertain about the future course of U.S. macroeconomic policy, and this uncertainty encouraged shifts out of dollars because it made the dollar a riskier, and hence less attractive, asset.

THE NOVEMBER 1 INITIATIVE

On November 1 the Administration and the Federal Reserve implemented a strong dollar support program. Its basis was the judgment that, whereas some of the earlier 1977–78 dollar decline had been necessary to correct the external disequilibrium, the continued decline of the dollar had become disorderly and was not justified by fundamental economic conditions. On the contrary, all the econometric evidence, the government forecasts, and the private forecasts indicated that the U.S. current account deficit was likely to narrow sharply in 1979. Indeed, it had already fallen from the levels reached in the first half of 1978.

The dollar depreciation from September 1977 through the summer of 1978, combined with U.S. economic policies recently put in place—the National Energy Act, a new national export policy, the shift toward more restrictive monetary and fiscal policies, and the other elements of the anti-inflation program—was thought likely to be effective in slowing inflation at home and bringing about a more appropriate external balance. Further dollar depreciation, especially that induced not by fundamental economic factors but by uncertainty about future exchange rates or policies, was therefore unnecessary for adjustment and would have led to a misallocation of resources at home and abroad, possibly even to serious instability in the financial system. Such movements would have added further to U.S. inflationary pressures and thus harmed the prospects for the anti-inflation program. They could also create the kind of instabilities in exchange markets that could threaten economic prospects in other countries.

In the light of these considerations, the United States announced a dollar support package that contained two parts. First, the United States mobilized $30 billion in resources as its share of a joint intervention program with Germany, Japan, and Switzerland. Second, the Federal Reserve tightened domestic monetary policy by raising the discount rate from $8\frac{1}{2}$ to $9\frac{1}{2}$ percent and by imposing a 2 percent supplementary reserve requirement on large time deposits. The Federal funds rate also rose from $9\frac{3}{8}$ to $9\frac{7}{8}$ percent on November 1.

The $30-billion intervention package comprised several different items: (1) the Treasury's drawings on our International Monetary Fund reserve position of $2 billion and $1 billion in Deutschemarks and yen respectively; (2) the Treasury's sales of a total of $2 billion of special drawing rights to Germany, Japan, and Switzerland; (3) a doubling of the Federal Reserve swap lines with Germany, Japan, and Switzerland—to $6 billion, $5 billion, and $4 billion respectively; and (4) the Treasury's commitment to issue up to $10 billion in foreign currency denominated securities in foreign private markets.

The markets responded favorably to the dollar support policy. By the end of the first week of the program, the trade-weighted dollar was 7.7 percent higher than it had been at its low point at the close of business on October 30. By November 30 it had risen an additional 2.4 percent; and, while some declines occurred in December and early January—principally with the news of the OPEC price increases and the instabilities in Iran—by the middle of January it was again roughly 7.7 percent above its October low. Thus the foreign exchange markets at the beginning of 1979 were clearly in a different condition from what they were in the summer and fall of 1978. The one-way speculation had largely ended, and economic fundamentals appeared to be much more important market factors than they had been 2 or 3 months before. Market participants, who had been primarily concerned about preventing further foreign exchange losses and uncertain about the specific timing of an expected dollar upturn, were now taking a more healthy wait-and-see attitude about the future course of market fundamentals. The November 1 action, bolstered by the greater certainty that it generated, appears to have achieved its basic purpose. In the period ahead the value of the dollar should depend on sustained progress in the U.S. trade and current accounts and on the success of the new anti-inflation program, rather than on the level of market uncertainty.

While the dollar's decline in the fall of 1978 was an instance of a malfunctioning of exchange markets, the overall history of exchange rates in recent years does not suggest that such malfunctions are chronic. Rather, they are temporary but acute symptoms that are most likely to develop when general macroeconomic conditions are diverging, or in transition, thereby generating greater uncertainty about future economic conditions and policies and an increased dispersion in expectations about future exchange rates. Conversely, as general macroeconomic conditions and policy directions become better established, exchange markets can be expected to perform more smoothly their function of adjusting rate levels to such economic divergences as remain between countries. Such a calming of exchange markets may take time and may require considerable further efforts toward coordinating macroeconomic policies across countries. Excessive market sensitivity, built up during periods of disorderly movement, is likely to induce continued higher than normal variability in rate movements until accumulated evidence of greater underlying stability becomes firmly established.

THE EUROPEAN MONETARY SYSTEM

The members of the European Economic Community reached agreement on a new European Monetary System expected to be implemented in 1979. The development of this system is consistent with the Community's continued efforts to work toward economic and political unification and with its members' concern about the negative effects on economic activity and investment of what they consider increasingly excessive and unnecessary volatility in exchange rates.

In the short run this new agreement amounts to adding France, Ireland, and Italy to the Snake arrangement of the Benelux nations, Denmark, and West Germany, with Norway dropping out. There will be expanded credit arrangements and increased margins around parity changes (up to 6 percent for new members) as well as greater flexibility for parity changes. The United Kingdom, which initially will participate in only part of the system, may become a full member later in 1979. The European Monetary System is considered by many participants to be an important step toward a full-fledged monetary union of the European Community countries, with fixed exchange rates, a European Currency Unit for use as a numeraire as well as for intra-Community central bank settlements, and a European Monetary Fund with comprehensive credit facilities.

In the early part of its existence, any system of fixed exchange rates must concern itself with the establishment of consistent rate patterns and adjustment mechanisms. Otherwise, whenever rate patterns or fundamental economic conditions appear unsustainable, market participants are likely to test the weakest and strongest currencies. Judging from past efforts, governments can sometimes forestall such attacks by judiciously adjusting central rates when economic conditions warrant such action. The adjustment of central rates, however, cannot be too frequent, for then future changes would tend to become anticipated by the market, and the self-stabilizing property of the system—which is its major benefit—would be dissipated. On the other hand, if rate adjustments become too infrequent, fundamental disequilibria will become so large as to attract massive, and successful, speculative attacks.

To maintain a fixed-margin arrangement, therefore, it is necessary to forestall situations in which central rates cease to be credible and to do this by working actively toward convergence of macroeconomic conditions and policies. For the countries of the European Monetary System, this necessity is clearly recognized. Indeed, to some extent the European Monetary System was regarded as an instrument for achieving precisely this sort of convergence. Its success will depend in the shorter run on its flexibility, the viability of its credit arrangements, and the eventual full-time membership of all Community members, and in the longer run on the convergence of member countries' macroeconomic policies and economic conditions.

THE CHANGING ENVIRONMENT OF WORLD TRADE

Until recently, the postwar period has been one of very high growth of national economies and improved living standards. One of the major sources of this vitality has been the progressive dismantling of trade barriers. Each of the three major industrial regions (North America, Europe, and Japan) has experienced increased trade flows. This increase is due in large part to the vision of those who built the Common Market, progressively opened up the Japanese economy, and sustained the Kennedy Round of multilateral tariff reductions.

During the last decade, however, movement toward increased competition in international markets has flagged. Indeed since 1974 there has been some regression in trade policies. In response, the United States, along with governments of other major industrial countries, has committed itself to promoting free trade and reducing protectionist pressures around the world. The aims of U.S. trade policy are to enable the United States and other economies to benefit from the most efficient allocation of worldwide resources and to channel U.S. resources into sectors of comparative advantage. In 1978 the major activities of U.S. policy makers in this area involved the Multilateral Trade Negotiations in Geneva, the determination of domestic trade policy, and the development of the President's National Export Policy.

In recent years the growing economic interdependence in the international community, along with an increasing incidence of shocks and resulting adjustment policies, has led to an increasing number of trade problems around the world and consequently to more cases of overt or indirect protection and reaction. These trade problems and increasing protectionist pressures have several causes: the emergence of newly industrialized nations who are competing to gain an increasing proportion of the export market for industrial goods; the development of long-term structural problems in several sectors, resulting from shifts in the pattern of world consumption and production; the appearance of significant current account deficits after the oil price increase in 1973; greater skepticism about the functioning of the international trading system; and, above all, the recession, stagnant domestic markets, and associated high levels of unemployment since 1974. Accordingly, individual nations have taken several measures—including safeguard actions (protecting domestic industry against injury from imports), antidumping proceedings, and actions to offset export subsidies. These policies have been concentrated in certain industrial sectors, particularly textiles, automobiles, steel, and shipbuilding.

THE MULTILATERAL TRADE NEGOTIATIONS

The Administration, in conjunction with its major trading partners and numerous developing nations, is committed to resolving these trade problems through the Tokyo Round of the Multilateral Trade Negotiations. The goals of these multilateral negotiations have been to relax tariff and nontariff barriers to trade, to formulate rules for trade and codes of fair conduct, to develop effective mechanisms for settling disputes, and to allow nations to benefit from specialization without unduly losing control over the growth patterns of their own economies.

By the end of 1978 these goals seemed close to achievement when significant agreement was reached on the reduction of most of the tariff and nontariff barriers to trade. The trade package (still subject to final agreement in early 1979 and to legislative approval later in the year) includes codes on subsidies, government procurement, standards, customs valuation, and licensing. It also includes a package of tariff cuts by the United States, with reciprocal cuts from our trading partners. The U.S. cuts are projected to average about 30 percent. In addition, negotiators agreed to remove several particularly burdensome industrial and agricultural nontariff barriers. And finally, the trade package provides measures to improve the General

(61)

Agreement on Tariffs and Trade (GATT) framework for dealing with agricultural trade issues, trade with developing countries, balance of payments measures, export restrictions, and the general management of trade disputes.

Among the most significant areas of agreement for U.S. trade interests are the codes on safeguards, on subsidies and countervailing duties, and on government procurement. The safeguards code ensures that countries will observe international trading rules as set forth in the revised GATT Article XIX when they restrict imports of particular products in order to afford temporary relief to domestic producers from injurious foreign competition. This revised article provides for a broad coverage of trade policies, improved criteria and conditions for taking safeguard action, more openness and due process in domestic safeguard procedures, and better international surveillance. There is also likely to be some scope for selective action when an injury can be ascribed to imports from particular countries. Such selectivity would be subject to consultation and negotiation with the affected countries and to surveillance by a GATT committee of representatives from each of the signatories.

The agreement on subsidies and countervailing duties will limit trade-distorting subsidies, and will enunciate more clearly a country's right to take counteractions against such practices. Export subsidies will be defined more broadly than they have been in the past (for example, they can exist even if the domestic price and export price are the same); they must be imposed and regulated with greater "transparency" (that is, so that they are more visible to the domestic and foreign public); they will be prohibited on primary mineral products and nonprimary products; and their use for agricultural products will require greater discipline. In addition, signatories will agree to consider the impact on their trading partners when using economic subsidies in general. Countermeasures can be imposed if a subsidy causes injury to domestic producers, the impairment of benefits from GATT concessions, or serious prejudice to other signatories (if, for example, it reduces a nation's expected benefits from international agreements). This particular code will be enforced through a tightly controlled process for settling disputes (the recommendations of the international committee must be reported within 120 days of a complaint).

The government procurement code is intended to reduce the scope for discrimination against foreign suppliers when governments purchase articles for their own use. It entails agreement on greater transparency in the bidding and awarding of government contracts for purchases of goods; and, since the elimination of all discrimination is unlikely, it also requires agreement about the official entities that would be covered by the code. The latter problem is particularly difficult since many of the entities which are private in the United States are governmental in many foreign countries. Nevertheless significant reduction of discrimination in government procurement, subject to settlement of disputes by an international panel, should be achieved.

Taken together, the tentative agreements reached in the Tokyo Round of the Multilateral Trade Negotiations represent significant progress in our continuing efforts to reduce barriers to international commerce and to strengthen and expand international trading rules, and they should contribute to an increase in trade and investment around the world. This agreement represents the first time since the 1960s that the international community has reduced the barriers to trade across such a broad spectrum of tariff and nontariff measures. For the United States in particular, the lowering of our own import barriers should help reduce inflationary pressures by increasing the competitiveness of imports and of import-competing products. At the same time, our export capabilities will receive a boost through the lowering of both tariff and nontariff barriers in our major export markets.

U.S. DOMESTIC TRADE POLICY

Despite increasing trade problems and pressures for protectionist trade policies around the world, the Administration remains committed to a free and open trading system. In many highly concentrated domestic industries, foreign competition helps prevent market power from becoming excessive. Nevertheless cases occur from time to time where, under U.S. law, import relief is necessary: where injury exists, where imports are the major cause of injury, and where such temporary actions can contribute to adjustment.

In 1978 the International Trade Commission investigated petitions for import relief by over 30 industries, covering imports valued at over $2 billion. The International Trade Commission recommended increased protection in the form of tariffs or quantitative restrictions on more than $1.3 billion of trade in such goods as stainless steel flatware, high-carbon ferrochrome, CB radios, refined copper, industrial fasteners, and bicycle tires and tubes. Relief was granted in escape clause cases involving approximately $750 million in imports (for example, CB radios, high-carbon ferrochrome, and industrial fasteners). In these cases the Administration decided in favor of import relief because it would aid substantially in the development of more efficient industries, and because the direct benefits of relief were sufficiently high to outweigh the costs to consumers and other sectors of the economy.

THE NATIONAL EXPORT POLICY

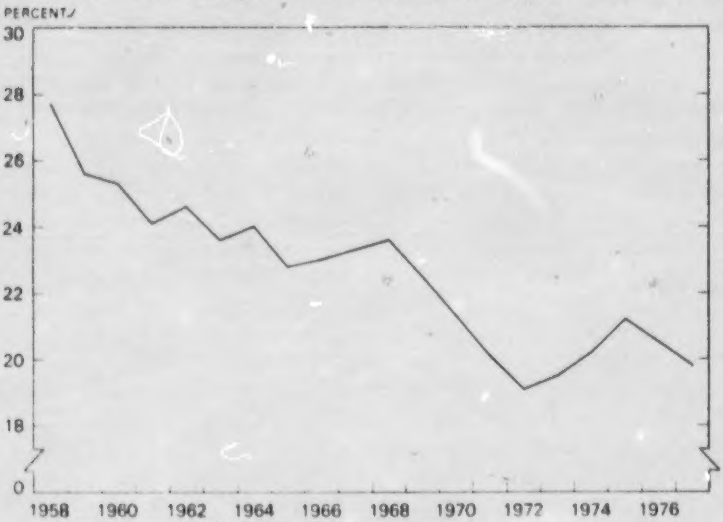
Faced with the large external deficit and the need for action, the Administration felt that increasing U.S. exports could be a valuable way to move toward adjustment. In the light of the weak dollar, the deteriorating position of U.S. manufactured exports, and the low profile accorded export efforts in the United States, the Administration announced the National Export Policy on September 26, 1978. This National Export Policy, in conjunction with the successful conclusion of the Multilateral Trade Negotiations, will ensure a strong export industry and an environment for fair competition from imports for the period ahead.

Before 1976 the largest U.S. trade deficits for a full year were the $5.3-billion deficit in 1974 and the $6.4-billion deficit in 1972. In comparison, the trade deficits in 1976, 1977, and 1978 were $9 billion, $31 billion, and an estimated $35 billion respectively. The U.S. share of total manufactured exports of 15 industrial countries fell from almost 30 percent in the late 1950s to 19.2 percent in 1972. It rose to 21.1 percent in 1975 but has declined steadily since then, falling to 18.9 percent by the first quarter of 1978, the lowest since mid-1972 (Chart 13).

The outlook for 1979 and the early 1980s is much brighter. U.S. exports of manufactured goods have already shown a strong turnaround in 1978. This improvement, and the favorable outlook, derive from several factors. First, some of the trade deficit can be explained by our faster growth compared to that of our major trading partners. As their growth rates abroad increase in relation to ours, in accord with recent trends and commitments made at the Bonn Summit, our exports should increase relative to our imports. Second, the depreciation of the dollar over the last 18 months will provide a continuing spur to exports in the coming years. Third, by reducing inflationary pressures, the Administration's anti-inflation program will improve our international competitiveness, increasing our exports and reducing our imports. Fourth, the successful conclusion of the Multilateral

Chart 13

U.S. Share of Fifteen Industrial Countries' Exports of Manufactured Goods



/U.S. EXPORTS OF MANUFACTURES AS PERCENT OF TOTAL INDUSTRIAL COUNTRIES' EXPORTS OF MANUFACTURED GOODS
SOURCE: DEPARTMENT OF COMMERCE

Trade Negotiations in Geneva will reduce tariff and nontariff barriers in our export markets and should improve our export capabilities.

Finally, the Administration has committed itself to a stronger emphasis on foreign markets for U.S. goods by developing the National Export Policy. This policy includes the following major provisions: an increase in the size and the flexibility of the Eximbank's activities; a commitment from the Small Business Administration to channel up to $100 million of its loan guarantees to small export businesses; an earmarking of $20 million of the Commerce and State Departments' budgets to assist small- and medium-sized businesses in their marketing efforts abroad; an increase in the level of short-term agricultural export credits by almost $1 billion; and a decision to ask the Justice Department to clarify ambiguities about the enforcement of the Foreign Corrupt Practices Act and the international application of our antitrust laws.

Perhaps the most important contribution the Federal Government can make to improving our trade position is to assure a more sensible regulatory environment. Too frequently, obstacles to production or investment have raised domestic costs or encouraged imports. If agencies are required to take into account the effects on trade and other costs of regulations, greater scope can exist for competitive forces, thereby allowing domestic producers to gain a greater share of domestic and foreign markets.

TABLE B-106.—*Industrial production and unemployment rate, major industrial countries, 1960–78*

[Quarterly data seasonally adjusted]

Year or quarter	United States	Canada	Japan	European Community[1]	France	West Germany	Italy	United Kingdom
	Industrial production (1967=100)[2]							
1960	66.2	62.9	43.9	74.7	71	77.6	60.9	84.0
1961	66.7	65.6	51.3	78.1	75	82.9	65.7	84.9
1962	72.2	71.1	55.4	81.3	79	86.4	71.9	84.8
1963	76.5	75.7	61.7	84.8	83	89.4	77.9	88.4
1964	81.7	82.6	71.4	91.0	90	96.6	79.1	95.8
1965	89.8	89.6	74.2	94.7	93	102.1	83.8	97.7
1966	97.8	96.3	83.9	98.4	98	103.0	92.3	99.2
1967	100.0	100.0	100.0	100.0	100	100.0	100.0	100.0
1968	106.3	105.4	115.2	107.4	104	109.2	106.4	106.8
1969	111.1	113.7	133.4	117.6	114	123.1	110.5	110.3
1970	107.8	115.3	151.7	123.3	120	131.1	117.6	110.9
1971	109.6	121.5	155.8	126.1	128	133.6	117.5	110.6
1972	119.7	130.7	167.2	131.7	135	138.7	122.7	113.2
1973	129.8	143.0	190.5	141.4	145	147.7	134.6	123.6
1974	129.3	147.5	183.1	142.3	148	145.1	140.6	120.8
1975	117.8	139.6	163.9	132.8	139	137.1	127.6	114.3
1976	129.8	146.7	182.8	142.5	149	149.1	143.5	117.4
1977	137.1	152.6	189.5	145.0	152	152.2	145.1	123.1
1978 p	145.1	----------	----------	----------	----------	----------	----------	----------
1977: I	133.6	151.4	188.2	149	153	153	154.8	123.2
II	137.0	151.7	188.9	147	152	151	143.6	123.0
III	138.4	152.7	189.7	144	151	152	142.5	123.6
IV	139.3	154.8	191.2	144	149	153	139.5	122.3
1978: I	139.6	155.8	195.7	146	152	153	140.0	124.1
II	144.0	157.8	200.2	146	155	153	144.6	128.0
III	147.0	160.4	201.6	----------	154	157	145.2	128.3
IV p	148.5	----------	----------	----------	----------	----------	----------	----------
	Unemployment rate (percent)[3]							
1960	5.5	7.0	1.7	----------	1.8	1.1	3.8	2.2
1961	6.7	7.1	1.5	----------	1.6	.6	3.2	2.0
1962	5.5	5.9	1.3	----------	1.5	.6	2.8	2.8
1963	5.7	5.5	1.3	----------	1.3	.5	2.4	3.4
1964	5.2	4.7	1.2	----------	1.5	.4	2.6	2.5
1965	4.5	3.9	1.2	----------	1.6	.3	3.5	2.2
1966	3.8	3.4	1.4	----------	1.9	.3	3.8	2.3
1967	3.8	3.8	1.3	----------	2.0	1.3	3.4	3.4
1968	3.6	4.5	1.2	----------	2.6	1.4	3.4	3.3
1969	3.5	4.4	1.1	----------	2.4	.9	3.3	3.0
1970	4.9	5.7	1.2	----------	2.6	.8	3.1	3.1
1971	5.9	6.2	1.3	----------	2.8	.8	3.1	3.7
1972	5.6	6.2	1.4	----------	2.9	.8	3.6	4.1
1973	4.9	5.6	1.3	----------	2.7	.8	3.4	2.9
1974	5.6	5.4	1.4	----------	3.0	1.7	2.8	2.9
1975	8.5	6.9	1.9	----------	4.3	3.6	3.2	4.1
1976	7.7	7.1	2.0	----------	4.7	3.6	3.6	5.5
1977	7.0	8.1	2.0	----------	5.1	3.6	3.4	6.2
1978 p	6.0	8.4	[4]2.3	----------	[4]5.5	3.4	3.5	6.1
1977: I	7.5	7.9	1.9	----------	4.9	3.5	3.4	6.0
II	7.2	8.1	2.1	----------	5.1	3.5	3.4	6.0
III	6.9	8.2	2.1	----------	5.3	3.6	3.5	6.3
IV	6.6	8.4	2.1	----------	4.9	3.5	3.4	6.4
1978: I	6.2	8.4	2.1	----------	5.0	3.5	3.5	6.3
II	6.0	8.6	2.3	----------	5.1	3.4	3.5	6.2
III	6.0	8.5	2.3	----------	6.0	3.4	3.6	6.1
IV p	5.8	8.2	----------	----------	----------	3.4	3.6	5.9

[1] Consists of Belgium-Luxembourg, Denmark, France, Ireland, Italy, Netherlands, United Kingdom, and West Germany.

[2] All data exclude construction.

[3] Unemployment rates adjusted to U.S. concepts. Data for United Kingdom exclude Northern Ireland.

[4] 11-month average, seasonally adjusted.

Sources: Department of Commerce (Bureau of International Economic Policy and Research) and Department of Labor (Bureau of Labor Statistics).

THE MORAL PURPOSES AND PHILOSOPHICAL BASES OF AMERICAN FOREIGN POLICY*

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by Paul Seabury

Jacob Burckhardt, dealing with morality and politics in his *Civilization of the Renaissance in Italy*, wrote: "We must leave those who find pleasure in passing sweeping censures on whole nations, to do so as they like. . . . A great nation, interwoven by its civilization, its achievements, and its fortunes with the whole life of the modern world, can afford to ignore both its advocates and its accusers. It lives on with or without the approval of theorists."

Would a Burckhardt made familiar with the qualities of our late-twentieth-century world find this observation applicable to contemporary America? We can view his proposition skeptically. Ideas and perceptions now pass through open societies with swiftness and intensity. Now, our intellectual class increases in numbers while claiming final judgment on the character of our nation and its conduct. Its approval, or the withholding of it, can have a great effect upon national policies. In free societies it exercises an authority it never before possessed. The qualities, purposes and actions of our civilization are open to its scrutiny and subject to its judgment. Ideas cannot be ignored.

In the American Bicentennial year, to face once more the question of morality and U.S. foreign policy is to engage in déjà vu adventure — like rummaging through a family attic piled high with boxes of old letters. Quarrels over this matter span our national history, which is odd, considering both the changes in the nature of our society and the even more dramatic changes in America's relationship to the outside world. The cast of characters alters; themes remain constant.

Something else is odd about this. A concern about the relation between morals and politics is not uniquely American. But few other nations take philosophic purpose in foreign affairs as

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seriously as Americans do. Some Americans, too, say that the issue is fruitless. How is it possible for any country to fashion, or to agree upon, principles of national conduct in a world in which dangers and challenges, adversaries and friends, are always in flux? Why bother to frame principles of conduct in a world of many actors, few of whom are likely to take them seriously? Irving Kristol, for instance, says that ideology "can obtain exasperatingly little purchase over the realities of foreign policy" since "the nations of the world do not constitute . . . a community and propose few principles by which their conduct may be evaluated." Such logic requires that philosophers need not apply for jobs in a shop where necessity and expediency are being fused.

But those who would lead philosophers gently away from affairs of state usually do so in order to get them out of their hair. Few Realists may deny the force of moral judgments, and the influence these — when unleashed — bring to bear upon our nation's posture and power in the world. But the passions of moral preferences enforce the intensity and persistence with which national goals are pursued, established or resisted. For example, only cynics would question the deliberate passion in Woodrow Wilson's words (taken from his Second Inaugural Address) only weeks before America's entry into the European war:

> The shadows that now lie dark upon our path will soon be dispelled and we shall work with the light all about us if we be but true to ourselves — to ourselves as we have wished to be known in the counsels of the world and in the thought of all those who love liberty and justice and the right exalted.

II

For better or worse, since the beginning of the republic Americans have displayed strong sentiments about their country's role in world affairs. Liberty occupies a central thematic place among them. Emblazoned on monuments, sung about in anthems, stamped on coinage and expressed on placards, it still dominates our civic thought and language. Even Realists, downgrading moral elements of statecraft, would (if offered the choice) prefer an outside world populated by civic cultures respecting human and civic rights under law, as we do. That the American concept of independence fuses ideas of individual and national self-determination as aspirations — "free men and free soil" — leads some to conclude that this conception has universal pertinence. From Jefferson, through Wilson and Franklin D. Roosevelt, on and on, even recently through Daniel Patrick Moynihan, the word "goes forth." Even as aspiration, the American view extends the hope that freedom may spill over into other lands; and from time to time this view affects America's international activities in momentous ways.

Some American Realists, objecting to such a tendency, see dangers of messianism in it since, were a passion for freedom ever to get out of hand, who could tell where it would all end? Hamilton early saw the handwriting on the wall, when Republicans like Jefferson tried to drag the infant nation into war with Britain to defend the forces of revolution in Paris. The instinct — to fight for freedom wherever a good cause was to be found — could parachute adventurers onto snowy plains in Tibet, distant from concrete interests of the republic. Much later, Dulles, a moralist with respect to the fate of captive nations, religious freedom, and the like, was sobered by the real dangers of nuclear war in 1956, and forswore the "liberation" of Eastern Europe when that might have been possible. But Jefferson's portrait, not Hamilton's, now hangs behind the American ambassador's desk at the United Nations to stand for a most sentimental force of freedom.

The Realist-Idealist debate about principles and interests has been greatly enlarged by writers and practitioners. George Kennan, in a probing essay, said he could not find a standard, other than that of the national interest, by which to judge disputes among nations:

> Let us face it: in most international differences elements of right or wrong, comparable to those which prevail in personal relationships, are — if they exist at all — simply not discernible to the outsider. . . . Morality, then, as the channel to individual self-fulfillment — yes. Morality in governmental method, as a matter of conscience and preference on the part of our people — yes. But morality as a general criterion for measuring and comparing the behavior of different states — no. Here other criteria, sadder, more limited, more practical, must be allowed to prevail.

The distaste of such wise diplomats for morals arises from fear that morality leads to excess. Jefferson's idea, that America abandon safe neutrality for philosophical principle, caused Washington, resisting it, also to resist a storm of public outrage. In his Farewell Address, shaped in response to that experience, he warned against "inveterate antipathies against particular nations and passionate attachments for others." There is something to be said for this view; moralism might flame into dangerous projects.

But principled action is not so simply dismissed. A few months ago, a British delegate at the United Nations called former American Ambassador Moynihan a reincarnated Wyatt Earp for suggesting that President Amin of Uganda was a "racist murderer." Mr. Richards went on to say:

> There is a difference of perception between the United States and ourselves as to what the United Nations is all about. Mr. Moynihan sees it as a place where you fight about ideas. We see it as a place in which to advocate our interests and increase our influence.

With this, the cat again shot out of the bag. Can ideas actually be disconnected from interests? Max Weber wrote:

> *Interests* — material and spiritual ones — and not ideas, directly govern the relations among men. But the "pictures of the world" which have been created by ideas all too frequently, like the tracings of a pencil, sketch out the routes along which interests move.

We should ask, not what can be done to disconnect interest and ideas, but, rather, why and for what reasons are they closely connected?

III

Must a chasm separate American "pure thought" about foreign policy ideals from interests? There is a vast chasm between the Marxist assertion that ideology is a superstructure planted atop some material base like an advertising logo, and the fact that ideals can be powerfully woven into the fabric of our ordinary existence. That Americans value civic freedom is closely connected to the practical benefits they derive from it. That Americans also want others to see it this way is not unconnected to practical interests. Before reversing his mind about such matters, Senator William Fulbright offered a wise insight into the reason why Americans are that way. Americans, he said, wish to live in a "world of wide horizons."

The liberal values Americans extol have precise, if both general and mundane, application. Large assertions — freedom of information, press and speech; freedom of ideas, expression and assembly; freedom of individual workers to change jobs; freedom of movement from one place to another; equal opportunity and equality before the law; freedom of religion and the free market economy — turn up in our ordinary lives and practices. Freedom of movement, for instance, signifies the ease with which a worker arrives at or *chooses* a place of work, or with which a family *chooses* a vacation. The mobility of American culture, exemplified by the ubiquitous automobile, is an inseparable part of American culture. We could not imagine the nation otherwise.

During much of our country's history, this choice of civic and individual freedom has been flaunted by Americans in the face of authoritarian and traditionalist regimes. It has been the confidence of an upstart challenger; given the fact that the European monarchies were having their troubles, it was to be expected that their downfall — facilitated by such heroes as Lafayette, Kosciusko, Kossuth and Garibaldi, as well as the Frankfurt parliamentarians of 1848 — would be followed by liberal regimes. The rest of the (non-European) world, subject to the dominion of European imperialists, was a further example. Here, Americans protested the practice and doctrine of imperialism; while the United States had few interests in or connections with the imperial possessions of European states outside the Western Hemisphere, at least it could claim to champion the freedom of "all" — a pose for the most part, since until Franklin D. Roosevelt's time not much American leverage was put upon colonial powers to shed their possessions.

It is important to remember this phase of our national past because the situation now, in the late twentieth century, differs from what many once assumed to be, if not inevitable, then a very likely prospect. The great empires (aside from that of the Soviet Union) have passed; the monarchies of the European system for the most part are long since gone; a system of independent or quasi-independent nation-states now girds the globe. Yet, for a variety of reasons which I propose to explore now, it may be said that the cause of civic freedom — inseparable from American national interests as we have known them — is probably in worse repair in the world than it has been in a long, long time. There are certain tendencies that make the situation (at least for the time being) quite bleak.

IV

Some of the most important manifestations of the difficulty are so obvious, and have been with us for so long, that we have become as accustomed to their profile as are Japanese to the looming presence of Mount Fuji. We have become accustomed to the presence of two sprawling, powerful communist empires — each doctrinally committed to the abolition of liberal democracy, rivaling each other by sponsoring movements of "liberation" in various parts of the noncommunist world in order to consummate the decline and fall of bourgeois societies (us). The importance of each of these manifestations of gross hostility is that even though each is now well into adulthood, both are products of our own century. The ideas and systems of political control and regimentation, and the fervor their rival versions of the "New Man" doctrine continue to inspire among minorities and intellectuals in many places, bear witness to the fact that the contentions between them, and between them and "us," are inspired by far more than Realpolitik considerations.

Pragmatic Americans, including many thoughtful scholars, for a long time have held forth the sociological proposition that somehow, in each of these mighty empires, a new generation of leaders will introduce counsels, not only of prudence but even of tolerance. The compulsions of coping with new societal problems created by the technological revolution, in this view, may diminish the ideological element in their behavior, notably in their behavior toward us. While this hope may some day come to fulfillment, and allow what we call the "human spirit" to reassert itself, signs of it today remain slight. The Sakharov circle, viciously repressed in the Soviet Union, could probably caucus in a telephone booth; the search for even one mainland Chinese Solzhenitsyn has yet to begin.

By now it is clear that one major reason for the recent muting of American fulminations about the tyranny of these regimes is the fact that both (separately or in combination) are quite dangerous. If the East European crisis of 1956 was not enough to demonstrate this, the missile crisis of 1962 surely was; and thus today few would quarrel with the proposition that, minimally, our national capacity to regulate our differences with each of them is a matter of the highest national importance. We would seem to prefer a Kissinger to a reincarnation of John Foster Dulles if only because, in his very special way, Kissinger's diplomacy didactically has sought to instruct everyone concerned about the necessity of careful conduct in a thermonuclear age. The contrast between his admonishments and those of Cordell Hull in the 1930s would be worth examining. Hull once chided his fellow Americans for what he called a "careless tolerance of evil institutions"; probably Kissinger would rephrase the message constructively to call for a "careful intolerance" of them.

Another aspect of the current situation should cause us unease: The emotive force of civil freedom, once assumed by Americans to be infectious, has very nearly failed in the Third

World.[1] The rather naive expectation that independence might be followed by phases of political and economic modernization, in the direction of open societies, now is rarely discussed. Rather, what can be seen is the widespread collapse of Western political forms in areas such as sub-Saharan Africa where they existed briefly, if only in rudimentary form. We have learned that "national independence" — among the many potentialities latent in "national independence movements" — can mean the possibility of tyranny. It is a profound irony that South Africa, where racial suppression acts as the cement of political order, has the freest press in all of Africa, and allows political opposition, while the scenes of most vicious racial warfare and genocide have been to her north in nations such as the Sudan, Nigeria, Uganda, and now Angola. Our disillusionments grow as we take note of the pervasiveness of anti-Western *ressentiment* in many of these regimes — a glue which binds them in a negative solidarity.[2]

Thus it is that the "cause of freedom," in its traditional form, has few followers today on the international scene, and many dedicated opponents. The democracies — once regarded as vanguard by the world — now seem a beleaguered minority rendered more conspicuous targets by their relative affluence, and more singular by virtue of the fact that they contain a fast-dwindling proportion of the peoples of the earth.

Considering the ubiquitous anti-American sentiments currently erupting, like acne, in many places, one might find solace in a remark Burckhardt made about Venice in Renaissance Italy, surrounded by competitive and warring city states:

> Venice in particular was long accused on all hands of seeking to conquer the whole peninsula or gradually so to reduce its strength that one State after another must fall into its hands. But on a closer view it is evident that this complaint did not come from the people, but rather from the courts and official classes, while the mild government of Venice had secured for it general confidence.

V

Despite the disconcerting features of our time, it seems that Americans today view the necessary ethical bases of our foreign policy more as a decalogue of "don't's" than of "do's." The towering reason for this — Vietnam — speaks with such oracular resonance that it reminds one of the suspicious mother who, unable to see her young child playing in the back yard, shouted, "Jimmy, whatever you're doing out there — stop!" "No more Vietnams" — whatever the slogan may mean (and it certainly contains contrary possibilities) — now is a conversation stopper. The conventional wisdom of America, for the time being, ignores Mark Twain's famous cat tale:

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[1] I do not intend here to suggest a homogeneity where no homogeneity exists; the Third World for my purposes is the ex-colonial world of diverse new states which have come into existence since World War II.

[2] The strength of this *ressentiment* can best be seen in the solidarity shown by Third World nations with the OPEC states in their oil war against the West — even though the OPEC price rise took its greatest toll from the poorest of them.

> We should be careful to get out of an experience only the wisdom that is in it — and stop there; lest we be like the cat that sits down on a hot stove lid. She will never sit down on a hot stove lid again — and that is well; but also she will never sit down on a cold one any more.

If it were merely the Vietnam experience, with its hollow advice as to what we should not do, it would be one thing. But there is more; we face, rather, a formidable Vietnam-Watergate syndrome. The Watergate part of it, fused onto the other, marvelously elevates Lord Acton's principle (that all power corrupts, and absolute power corrupts absolutely) into a cardinal doctrine of statecraft. It has raised to high levels of public salience old questions that have always troubled American democrats. American democrats have a long, if not an unbroken, tradition of suspecting power; and perhaps on balance this has been a healthy suspicion. But the anti-institutional hatreds unleashed in the 1960s, and much enlarged in the 1970s, now raise fundamental questions of common sense.

John Locke, chief formulator of our "social contract" and the main architect of our conception of a government of shared powers, had no illusions about the difficulty of dispersing the powers of government when it came to foreign affairs. As he wrote in his *Civil Government*: "What is to be done with foreigners, depending much upon their actions and the variations of designs and interests, must be left in great part to the prudence of those who have this power committed to them, to be managed by the best of their skill for the advantage of the Commonwealth."

A novel question, in the debate about moral purpose and foreign policy, concerns the height of standards of public morality for a law-abiding republic that can and should be applied in America's external relations. What is peculiar about this moral crusade to reform the habits and prerogatives of the nation's foreign policy establishment is that many of the questions posed with fervor here are not even raised in most other nations. Whether the improvement of American moral standards may, or may not, have an exemplary multiplier effect in the conduct of nations generally is rarely discussed. Whether a moral America may prosper and remain secure in a world in which important adversaries (and even many of America's friends) are far less heedful of such standards brings to mind the fateful implication in Leo Durocher's famous cliché: "Nice guys finish last."

While a long list of fundamental questions have been reintroduced into our discussion of ethics and world politics, they can be reduced to a consideration of the ideal character of *American* behavior rather than that of nations generally. The subject, long debated among international lawyers—Should nations intervene in the affairs of others? — is complex enough; but in recent discussions it has narrowed to a simplistic and unilateral formulation: Should *America* intervene in other nations' business? And from this portentous beginning, the list goes on. Does the American presidency still have a respected authority to apply, or threaten to apply, force in international encounters without formal endorsement and ratification from Congress? Should policy officials be held to the highest standards of both full candor and veracity in their public statements about serious international issues? Does the public, and/or its elected legislature, have an absolute "right to know" about all the significant connivances, chicanery and confidences of America's diplomats, agents and policymakers? Should all of America's international transactions — even the most sensitive — be at all times open to view? Is the doctrine of "full disclosure" essential to repair Americans' alleged lack of confidence in their foreign-policy leadership?

Recently it has occurred to me that the moralists who would hold their foreign-policymakers to such high standards of public accountability in an otherwise imperfect world assign to the American people the same qualities assigned by the Book of Common Prayer to the Deity: "to whom all hearts are open and from whom no secrets are hid." Yet, with this difference — that while the Deity presumably can keep a confidence, the public, by definition, cannot. What is known or knowable to all Americans is there for all to see — adversaries and friends alike. When Tom Paine, as secretary to the Foreign Affairs Committee of the Continental Congress, pursued a moralistic vendetta of his own, and published in the Philadelphia press up-to-date details of the secret arms deal being made with the French court at Versailles, he was quickly and properly sacked from his job. If he were alive and similarly inspired today, it would not be surprising at all if he filed a million dollar lawsuit for punitive damages, and then sat back to await a Pulitzer Prize.

It is true that a certain body of opinion in this country holds that public confidence in institutions, now frayed and fretted, can be restored only by "opening up the system"; seen in this light, the demand that it be done in the field of foreign-policymaking is closely connected with demands of a similar sort made against many other institutions. But the moral onslaught against "secrecy" seems unobjectionable until one notes that on the opposite side of the coin are two other contrarily nuanced slogans, "privacy" and "confidentiality." It has by no means been shown yet that "full disclosure" — whether of a nation's ongoing deliberations and actions in world politics or of the private lives of even minor politicians — necessarily improves the quality of civic life. Full disclosure in public life can, for instance, degrade and debase deliberations; it can cause highly gifted individuals (wisely) to choose less-charged careers in which to exercise their talents; and, with respect to the matter currently under discussion, it can sterilize and destroy the morale of agencies essential to the well-being of the nation.

VI

The often-asked question, "Can American democracy survive Cold War?" remains as insistent in a time of détente as it was when characterized by higher states of tension and confrontation. Problematical though the question is, it has always had two dimensions: internal and external. Today, when past actions of government are unearthed to display the excesses of vigilance, it risks being overlooked that, quite paradoxically, the years of Cold War tensions (and are they fully over with yet?) were ones in which, on balance, American civil liberties were enlarged and extended, not constrained.

It may be something of a tribute to America's effective political leadership in those recent years that the best of her leaders took the struggle of liberty to be a two-front war; that the defense of civil freedoms abroad would be particularly meaningless if conducted at the expense of domestic ones, and vice versa. Now, however — at a time when many Americans choose inopportunely to pull down the shades, thus to conceal from themselves the nation's difficulties abroad — it would be a problematic crusade to try to construct morally pure standards of civic virtue which paralyzed America's international activities. A prosperous and morally self-satisfied nation is not to be confused with one that is truly secure. The precious mineral of freedom is not sufficient to its own protection. We can recall Francis Bacon's words, "For Solon said well to Croesus (when in ostentation he showed him his gold), *Sir, if any other man hath better iron than you, he will be master of all this gold.*"

VII

Principled actions must happen in a complex world. Max Weber distinguished an ethic of ultimate ends from an ethic of responsibility. To act exclusively upon high standards risks ignoring the consequences of action. *Fiat justitia, pereat mundus* — do justice, though the world perish — is an absurd consequence of an ethic of ultimate ends. Another possibility is that the pursuit of principle often leads to a collision with another. Yet choices must be made between or among valued objects. Any action, principled or not, requires choices in a flawed world, and thus a danger in morality is a tendency to seek simplistic solutions. Tunnel-vision morality, sights set upon one aspect of reality and closed to others, is vision dangerously reduced. To be mindful of principle when in action is as difficult as the task of a commander in dubious battle seeking to relate tactics to strategy. In foreign policy the final difficulty is to frame action in forms that elicit public approval. All these facets of the problem are well known.

The novel aspect about public morality in America today is that insistence on an ethic of perfection for American foreign policy may end up as rationale for non-action. Alexander Bickel, when asked to comment on the state of morality in America a few years ago, replied, "it threatens to engulf us." He was far from being wrong. Americans rightly have come to be uneasy about the uses of American power in the world; possible abuses of it are great and awesome. But among the worst abuses is its non-use. To withhold power and influence in some small instances of trouble may be wise; but a known, persistent tendency to withhold even limited power risks the greater danger that much higher inputs of power will have to be used later. (The California senator who opposed a single American or a single dollar for Angola, yet proposed total cessation of grain shipments to Russia if Russians did not clear out, is a case in point.)

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Pericles said that while a few make policy, "we are all able to judge it." But a difficulty arises when attempts to justify and explain the uses of power strike no responsive chord in the public. If Kennedy rhetoric may have been too high, recent Administration rhetoric may have been too low. Metternich's skills were those of a facile diplomat determined to restore and to maintain order. The need for order is no less in our time, but it is hardly sufficient. International relations theorists and defense analysts take a great deal of interest in the balance of power, but no one ever gets excited about it. A new Administration, if there is to be one, may go beyond the mere search for a stable world and restored public confidence. It may speak to American minds and hearts with reminders of the high stakes and costs for an American free society in a world where, for better or worse, it is far from omnipotent yet perhaps one of man's best hopes. Just before his nomination in 1932, Franklin Roosevelt wrote a piece for *Foreign Affairs*. He ended with these simple words: "It is the spirit which counts."

CHAPTER 3

The United States in the North-South Dialogue: A Survey*

Martin M. McLaughlin

The present phase of the much longer-term debate on international economic issues between the developed and the developing countries grew out of intensified pressure by the world's poorer countries in 1973-74 for fundamental changes in the existing international economic order, which they perceived to be working against their interests and which they had been actively seeking to change since the creation of the U.N. Conference on Trade and Development in the early 1960s. At the 1974 Sixth Special Session of the U.N. General Assembly—spurred on by the successes of OPEC, which they saw as strengthening their bargaining power—they demanded better access for their manufactured goods to the markets of the industrialized world, more stable and preferably higher prices for their raw materials, renegotiation of their external public debt, curbs on the activities of multinational corporations and improved access to their technology, a growing share in the world's industrial production, a new and less demeaning aid relationship, and a greater voice in the management of the international monetary system and the international financial institutions. Collectively, their goals came to be known as the "new international economic order."[1]

The debate moved from what was essentially a challenge and confrontation in 1974 and early 1975 toward a more genuine "North-South

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Note: The author wishes to thank the many ODC colleagues and others who contributed to this survey, especially Mildred Weiss.

[1] The term was first introduced by the *Declaration and Action Programme on the Establishment of a New International Economic Order*, U.N. General Assembly Resolutions 3201 (S-VI) and 3202 (S-VI), May 1, 1974.

*Reprinted by permission from The United States and World Development: Agenda 1979, New York, Praeger. 1979. p. 77-113. (Praeger Special Studies.)

dialogue" (as it then came to be known) in late 1975, following the Seventh Special Session of the U.N. General Assembly in September of that year. The limited but promising consensus reached at that session appears to have been more rhetorical than real, however, since the positions of the North and the South on these international economic issues have advanced relatively little since then.

After a year of discussion in 1976 that at best yielded mixed results, many leaders in the South hoped that the new Carter Administration would not only carry forward the somewhat more conciliatory approach of the latter period of the Ford Administration, but would also undertake bold, imaginative initiatives of its own. Major meetings—notably the continuation of the Conference on International Economic Cooperation, negotiations on the Common Fund, and a number of negotiations on individual commodities—were delayed (and in some cases extended) until the spring of 1977, in order to permit the Carter Administration to participate, and to capitalize on the promise the change in U.S. leadership seemed to offer. However, several factors have made it difficult for the United States to change its role in the dialogue very markedly. These include the current world economic situation, the sharply rising U.S. trade deficit, and the lack of agreement within the Administration on what specific gains (other than lessened confrontation) the United States and other Northern countries should seek in the negotiations.

In its first two years, the Carter Administration has dealt with the major North-South issues of trade, commodities, investment, debt, and aid largely by carrying forward policies begun in the latter days of the previous Administration, without making much substantive progress in formulating new policies. The United States has tended to see many of the short-term costs and few of the major benefits in negotiating with the South about the NIEO proposals, and numerous international as well as domestic matters have preempted its attention.

The Southern countries share some of the responsibility for this impasse. Their negotiating style in particular (although it is now less strident than in 1974) has been an obstacle to agreement. Despite (or perhaps because of) their highly disparate economic interests, they have sacrificed flexibility in detailed negotiations on many issues in order to maintain group solidarity. Thus some of the more open-minded leaders of the industrialized countries have been discouraged by a rigidity that has seemed to prevent the South from compromising on positions set in advance by the Group of 77.

At the same time, moderate leaders in the developing countries have become increasingly disconsolate and discouraged by the rich countries' reluctance to consider changes in the existing international system that might make the international economic order more equitable but would threaten their control of its essential elements. They are skeptical about the Northern, and particularly the U.S., contention that the various aspects of

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the dialogue must be discussed in separate forums—a skepticism that is reinforced by the minimal accomplishments achieved in those separate forums to date.

Agenda 1977 treated the issues and the forums in which they are being negotiated in considerable detail.[1] This chapter attempts to bring the reader up to date on the status of some of the more important elements of the dialogue—the major NIEO issues cited in the U.N. General Assembly's 1974 Declaration and Action Programme on the Establishment of a New International Economic Order—as well as North-South issues that are not explicitly part of the "agenda" of those NIEO documents. The latter issues include many that have been the subject of discussion between developing and developed countries for some time and several that are only now beginning to receive international attention. The following sections of this chapter first discuss the two major overarching forums that have attempted to deal with the broad range of North-South issues and then assess the development aspects of the negotiations on such specific issues as international communication, the allocation of ocean resources, disarmament, science and technology, energy, food, basic needs, and human rights. The actual and potential role of the United States in all these elements of the dialogue is emphasized—particularly with respect to the last two: basic needs and human rights. Finally, the part played by Congress in U.S. participation in the North-South dialogue is also examined.

Broad Negotiating Forums

The Conference on International Economic Cooperation

The expressed willingness of the North to negotiate on some of the issues of central importance to the South (which seemed to underlie the more conciliatory U.S. attitude at the Seventh Special Session) led to the convening of the Conference on International Economic Cooperation (CIEC) in Paris in December 1975. Very little progress was made during the following year, however, because the United States and the other Northern countries were interested primarily in discussing energy, whereas the South, including the OPEC countries, would not focus on energy issues unless the North gave greater consideration to the developing countries' commodity, debt, and other problems.

When the stalemated CIEC reconvened in Paris in the latter part of May 1977, the new U.S. Administration joined in the negotiations with positive, if vague, intentions. Most of the issues that had precipitated the Conference remained unresolved at its close in early June. These included the proposed $6 billion Common Fund, compensatory financing, diversification and local processing of raw materials, debt relief, developing-country access to industrialized-country manufactures markets, and a code of conduct for transnational corporations. The countries of the South could take some consolation from the last-minute creation (subject to legislative approval) of a one-time, $1 billion concessional "Special Action Program" to help low-income countries, the agreement in principle to establish a Common Fund to finance buffer stocks of certain raw materials, and the pledge to "substantially" increase in real terms the level of official development assistance. Strictly speaking, however, these decisions were not a direct result of CIEC; each had been agreed to elsewhere prior to the final CIEC session. Progress in implementing these has been sufficiently slow that it is still too early to tell what really has resulted from these "decisions."

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[1] John W. Sewell and the Staff of the Overseas Development Council, *The United States and World Development: Agenda 1977* (New York: Praeger Publishers, Inc., 1977), pp. 87-141.

Although the CIEC negotiations did not constitute the whole of the North-South dialogue in 1977 and 1978, their tone was echoed in the discussions that took place in other North-South forums. The CIEC talks were marked not only by differences on substantive issues, but even by disagreements about what the agenda should be and about the priority to be given each item. Energy—which was the main interest of the North, and especially of the United States—continued to be a particularly divisive issue.

The U.N. Committee of the Whole

During the course of its thirty-second session, the U.N. General Assembly created a Committee of the Whole as a venue for what it hoped would be a genuine and frank discussion of the NIEO proposals[3]—partly because CIEC had been so inconclusive and partly to prepare for the special session on international development cooperation in the 1980s and beyond scheduled for 1980. The Committee, which is open to all U.N. member states, has been in delicate health from birth because the Third World countries perceive it as having authority to negotiate whereas the industrialized nations do not. At its second session, which began in New York on September 5, 1978, the Committee was adjourned abruptly when the United States alone voted against a compromise formulation of what the Committee's authority should be. The U.S. spokesman, echoing the regret of other delegations at the "current impasse," told the Committee, "We intend . . . to actively pursue these goals in the many fora in which issues of common interest will be discussed and negotiated in coming months."[4] Although Secretary of State Cyrus Vance softened the U.S. stance in his September address to the U.N. General Assembly,[5] and the President of the Assembly shortly thereafter issued a carefully worded statement (from which no one dissented) reconvening the Committee of the Whole in January 1979, the future importance of the Committee remained in doubt in late 1978.

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[3] See *Assessment of Progress in the Establishment of the New International Economic Order*, U.N. General Assembly Resolution 32/174, December 19, 1977, adopted without vote.

[4] Robert Hormats, U.S. Mission to the United Nations Press Release, No. USUN-79 (78), September 11, 1978, mimeographed.

Specific Issues and Forums

Commodity Problems[6]

In 1976, the Fourth Ministerial Conference of the U.N. Conference on Trade and Development (UNCTAD IV) set in motion meetings on the Integrated Programme for Commodities—including the Common Fund and international commodity agreements—that had been proposed by the UNCTAD Trade and Development Board in 1974. At CIEC, in May 1977, the developed countries, including the United States, finally endorsed the Common Fund concept; the details of the Fund, however, were left to be negotiated within UNCTAD.

The second session of the Conference on the Common Fund ended in December 1977 in an impasse over widely differing views about how the Fund was to be financed, to whom it would lend and for what purposes, and who would control it. The developing countries want a) direct mandatory capital subscriptions from governments to provide much of the financing for present and possible future buffer stocks, and b) an additional source of funds—or a "second window"—to help finance such "other measures" as commodity diversification and processing, market promotion, and improvements in productivity. In contrast, the United States and most other industrialized countries insist that the Fund mobilize savings not by capital subscriptions, but by "pooling" the cash resources of individual commodity agreements and then borrowing from this pool or against callable capital or guarantees. Until recently, the United States opposed a second window, arguing that existing international financial institutions and bilateral aid programs are more appropriate means of funding non-commodity activities and, indeed, already do so.[7]

The United States has agreed in principle to participate in international commodity agreements to stabilize prices around their long-term market trends; it is already a party to sugar, tin, and coffee agreements.[8] In addition, it has participated in ongoing technical discussions on other individual commodities since 1976, in order to determine the feasibility of various commodity price stabilization agreements. The United States prefers that commodities be stabilized through the use of buffer stocks when this is technically possible and that consumers and producers share financial responsibility. Each existing or potential commodity agreement has its domestic supporters and opponents, and all of these interest groups make themselves felt in Congress, which must approve any negotiated agreement.

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[5] Cyrus R. Vance, "Address to the Thirty-Third Session of the U.N. General Assembly in General Debate," U.S. Mission to the United Nations Press Release, No. USUN-84 (78), September 29, 1978, mimeographed.

[6] For a fuller treatment of commodity issues, see Guy F. Erb, *Negotiations on Two Fronts: Manufactures and Commodities*, Development Paper No. 25, NIEO Series (Washington, D.C.: Overseas Development Council, 1978); and Jere R. Behrman, *International Commodity Agreements: An Evaluation of the UNCTAD Integrated Commodity Programme*, Monograph No. 9, NIEO Series (Washington, D.C.: Overseas Development Council, 1977).

[7] Secretary Vance announced a modification of this position in his September 1978 speech before the U.N. General Assembly, op. cit.

Commodity agreements are useful to both consumers and producers—countries as well as individuals. They benefit consumers by helping to prevent sharp commodity price rises that frequently become part of the generally inflated price structure, even if the commodity prices themselves move back down. For producers, abrupt price declines make investment planning difficult; by reducing uncertainty about prices, commodity agreements can help induce new investment to produce the supplies needed to satisfy growing domestic and international demand.

Since commodity price stabilization can be a major element in slowing world inflation, it would seem wise for the United States to accept a broader role for the proposed Common Fund, even though the Fund might also be employed for technical assistance to agriculture or other development purposes that the United States prefers to have managed by traditional bilateral and multilateral institutions. Some receptivity to such a middle ground was expressed in Administration testimony early in 1978,[9] and in Secretary of State Vance's speech before the U.N. General Assembly.[10]

The next scheduled opportunity for looking at commodity issues in a broad context is provided by the Fifth Ministerial Conference of UNCTAD, scheduled to meet in Manila in May 1979. UNCTAD V will focus on the unfinished agenda of UNCTAD IV, as well as on the persistently critical current world economic situation and on long-term strategies and policies for trade and development in the 1980s. Progress on the Common Fund as well as on the code of conduct for transnational corporations would undoubtedly help establish a positive and constructive atmosphere for UNCTAD V. In the meantime, individual commodity agreements should be worked out for as many as possible of the products currently under negotiation or consideration, with the hope that they eventually will be combined in a cheaper and more efficient price stabilization system.

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[8] The United States was to have joined the new sugar agreement no later than December 31, 1978. However, because the Senate failed to ratify the agreement prior to adjournment, the deadline needed to be extended.

[9] Richard N. Cooper, Under Secretary of State for Economic Affairs, testimony to the Subcommittee on Foreign Economic Policy, Senate Committee on Foreign Relations, February 27, 1978.

[10] Vance, op. cit.

Trade in Manufactures[11]

The Tokyo Round of multilateral trade negotiations (MTN)—which was initiated by a ministerial meeting in Tokyo in 1973—did not pick up momentum until late 1977, and in the fall of 1978 it was still uncertain whether a general agreement would be achieved in the winter of 1978-79. The MTN, whose implementation is expected to take place over the next decade, may be the last major opportunity to liberalize trade for some years to come. The negotiations involve not only tariffs, which have been repeatedly reduced during the past thirty years in the six previous rounds of trade negotiations, but also non-tariff barriers such as subsidies and countervailing duties, quantitative restrictions, customs valuation matters, and government procurement, as well as agricultural trade, safeguards for industries seriously threatened by imports, and the special treatment of tropical products. In response to growing protectionist pressure at home, governments everywhere increasingly have resorted to those "voluntary" non-tariff measures that still are acceptable under the General Agreement on Tariffs and Trade (GATT) and are now more important trade barriers than tariffs.

The industrialized countries are committed in principle to trade liberalization, having benefited greatly from it over the years, and they do not want to trigger an international trade war. Yet it is not at all clear how much this round can accomplish in trade liberalization—in light of the slow worldwide economic recovery, the leveling-off of the rate of growth in trade for all countries, high unemployment, rising oil imports in the United States and elsewhere, growing protectionism in the industrialized world, and the relatively weak bargaining power of the developing countries participating in the GATT negotiations.

Pressures for protectionism in the developed countries are concentrated in the very industries in which many developing countries have begun to export: textiles, shoes, and consumer electronics, for example. As developing-country export capacity expands, the pressures for restrictions, too, will surely increase. Although the United States experienced an adverse shift of $38.1 billion in its trade balance between 1975 and 1977 (from +$11.5 billion in 1975 to -$26.6 billion in 1977), the Administration resisted strong pressures in 1977 and 1978 from certain segments of organized labor, industry, Congress, and the U.S. International Trade Commission to restrict imports of some items.[12] It did, however, resort several times to "voluntary" export quotas, such as orderly marketing agreements (OMAs), which are agreements between an importing nation and the principal supplying nations to limit the rate of growth of imports and/or the absolute level of imports. In 1977, the United States negotiated OMAs with

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[11] See Chapter 2, pp. 53-59, for other considerations bearing on this topic. See also Erb, *Negotiations on Two Fronts*, op. cit.

[12] See Annex C, Tables C-7 through C-17, for further information on U.S. trade.

Taiwan and South Korea for imports of shoes and with Japan for imports of color television sets. In addition, the Administration is currently concluding bilateral negotiations with some twenty countries that supply the United States with textiles. In reaction to rising steel imports from Japan, the United States imposed a reference price system that leaves Japanese exporters, in particular, open to charges of dumping imports below the set prices; a program to help improve the long-run competitiveness of the U.S. steel industry was launched at the same time. Other countries—e.g., India and South Korea—may come under a similar reference price system. In early 1978, President Carter also raised the tariffs on CB (citizens band) radios; imports from Japan were again the main target.

For the middle-income developing countries—some of which are now frequently referred to as the "advanced developing countries"[13]—trade probably will continue to be the main generator of foreign exchange for development and other purposes. Liberalization of trade is of great interest to the middle-income developing countries in particular, but it is also important, at least to some degree, to even the poorest countries. Exports pay for imports, and without reduced trade barriers in the industrialized countries, the development prospects of other countries will be greatly diminished.

Third World representatives complain that, despite what the North seems to consider a major effort to involve them in the MTN, those talks do not deal with matters of major concern to them (such as eliminating quantitative restrictions on their exports) and do not acknowledge their right to subsidize infant industries needed for development. The industrialized countries, on the other hand, claim that the South has been slow and uncertain in using the opportunities available within the MTN.

At the same time, it has become clear that domestic adjustment assistance programs in the United States and other developed countries must be improved for workers whose jobs are eliminated by cheaper imports in some sectors. Protectionist pressures result largely from workers' well-founded feelings of job insecurity. Who pays for liberalized trade is as important as who benefits, and no group of workers should be required to bear a disproportionate share of the costs. Adjustment assistance thus is one of the clearest examples of the linkage between foreign and domestic economic policy. In the United States, adjustment assistance programs have been deficient on several counts: inadequate benefits, narrow coverage, and slow administration. After lengthy debate, both houses of Congress passed bills to liberalize adjustment assistance by extending the coverage to more workers, lengthening the benefit and retraining periods, and raising the ceiling on direct loans and loan guarantees to firms hurt by import competition. In the final flurry of the 1978 legislative session, however, the bill that emerged from the House-Senate Conference did not pass.

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[13] C. Fred Bergsten, Assistant Secretary of the Treasury, "Economic Relations Between the United States and Brazil: A Focus on Trade" (Speech before the Brazilian-American Chamber of Commerce, New York, New York, May 9, 1978).

Debt and Related Monetary Discussions[14]

In 1977 and 1978, debt was once again discussed at various international forums; the issue moved—but only haltingly—toward partial resolution.

At the insistence of the developing countries, debt was made the topic of the March 1978 UNCTAD Trade and Development Board meeting in Geneva. At this meeting, the industrialized countries indicated they were willing to consider granting relief on the bilateral concessional debt owed by the poorest developing countries, which "face serious development problems and in some instances serious debt difficulties." In the resolution passed at that meeting, the participating countries agreed to "seek to adopt measures for . . . adjustment of terms [of past bilateral official development assistance] or other equivalent measures as a means of improving the net flows of official development assistance in order to enhance the development efforts of those developing countries."[15] Each creditor country is to determine which countries are to receive help and how much. The developing countries, for their part, appear to have compromised as well, by modifying their earlier, broader demand for relief on official debt for "interested" developing countries.

A retroactive adjustment of the terms of past loans to today's terms for the poorest countries (which now generally receive grants rather than loans) would amount to cancellation of all their official bilateral public debt. Creditors tend to prefer to call such changes "aid" rather than debt relief. In spite of the relatively small amount of money involved (particularly when discounted to its present value) and the rather limited number of debtor countries that may be included, the meeting marked some progress on a previously highly confrontational issue. For those countries receiving help, the amounts of money involved are large relative to their available foreign exchange and thus provide important additional assistance. Moreover, complete cancellation of the $500 million annual debt service paid by the countries identified by the United Nations as "least developed"[16] on their aggregate (end-1975) $7 billion official debt would be likely to result in increased export earnings for creditor countries. The poor countries have little commercial debt to repay and if repayments were waived, would probably use any foreign exchange they saved for imports.

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[14] The debt issue is also discussed in Chapter 2, pp. 61-63. For fuller treatment, see Gordon W. Smith, *The External Debt Prospects of the Non-Oil-Exporting Developing Countries*, Monograph No. 10, NIEO Series (Washington, D.C.: Overseas Development Council, 1977); and Paul M. Watson, *Debt and the Developing Countries: New Problems and New Actors*, Development Paper No. 26, NIEO Series (Washington, D.C.: Overseas Development Council, 1978). See also Annex E, Tables E-2, E-3, and E-4, for data on developing-country debt.

[15] As reported in UNCTAD Press Release No. TAD/INF/946, March 13, 1978.

[16] The countries identified by the United Nations as "least developed" include primarily the countries of the Sahel and South Asia (although not India or Pakistan). See Annex A, Table A-4, which identifies the twenty-eight least developed countries.

A number of developed countries (Belgium, Canada, the Federal Republic of Germany, Sweden, and the United Kingdom) have granted debt relief to the poorest developing countries since March 1978. In the United States, legislation was passed to waive interest and principal for the "least developed" countries (on a case-by-case basis), if equivalent amounts are paid into local-currency accounts for use in approved development activities.[17] This amounts to effective cancellation.

In addition, Canada, the Netherlands, Sweden, and Switzerland—none of them large ODA creditors—already had converted into grants some development debt of selected poor countries (certain least developed and most seriously affected countries), and the Netherlands has been giving debt relief on concessional debt to selected poor countries as part of its aid program for some time.

While some progress thus was achieved toward providing *debt relief* for the poorest countries, considerable progress also was made at the September 1978 joint annual meeting of the World Bank and the International Monetary Fund toward helping the developing countries with their *debt financing* by expanding available IMF facilities. By voting to create $15 billion in Special Drawing Rights (12 billion SDRs) over the next three years, the IMF assured the developing countries of roughly $5 billion in additional borrowing power. Other agreements reached at this session—to raise IMF quotas by 50 per cent, to increase the capitalization of the World Bank, and to achieve a "substantial" increase in a sixth replenishment of the International Development Association—will also, if confirmed, contribute to further relaxation of the short-term debt predicament.

These actions follow a series of changes that have increased the IMF's ability in recent years to help developing countries, particularly those in distress. These changes include: liberalization of the IMF's Compensatory Financing Facility to help stabilize export earnings; establishment of the Trust Fund to use the proceeds from the sale of IMF gold for the poorest countries; and an increase in IMF resources through the Oil Facility and the Supplementary Financing Facility. This $10 billion "Witteveen Facility" was created to provide official financing to encourage countries with severe payment problems to adopt orderly corrective arrangements. In the fall of 1978, the U.S. Congress approved the $1.7 billion U.S. contribution to the Facility.

The United States supported all the World Bank and IMF initiatives, which together offer hope to both middle-income and low-income countries that they will be able to cope with their debt situations at least over the next several years. However, none of these actions significantly alters the allocating formulas of the IMF (which heavily favor the industrialized countries), modifies the stringent requirements of the IMF for creditworthiness (which generally lead affected countries to cut expenditures on programs that benefit the poorest people), or enables poor countries to lengthen the time frame of debt or ease its terms.

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[17] International Development and Food Assistance Act of 1978, Public Law 95-424, Section 124.

The International Communications Dispute[18]

The issue of international information exchange has greater potential for bringing about an unexpected explosion in the North-South dialogue than almost any other issue. Yet until the Twentieth General Conference of the U.N. Educational, Scientific, and Cultural Organization (UNESCO) in October 1978, very little public attention was paid to this question—except for a brief public outcry in 1976, when a Soviet-proposed "mass media draft declaration," approved by an intergovernmental conference from which the United States and other industrialized countries had withdrawn, was presented at the Nineteenth General Conference of UNESCO in Nairobi. Among other things, the draft declaration called for recognition of every nation's responsibility for all information generated within its borders or transmitted across them. The negative reaction by Western countries was immediate, vehement, and unanimous. UNESCO backed away from acting on the resolution; its Director-General, in consultation with all major interested parties, attempted to draft a compromise acceptable to the "widest possible consensus" for consideration at the Twentieth Conference. However, reaction to his August 21 draft—which, although more conciliatory in tone, reintroduced language subordinating media activities to state control—indicated that consensus had not been achieved.[19] This rejection by Western and some other countries led to intensive negotiations behind the scenes. Finally, a few days before the scheduled vote on the mass media declaration, a compromise was worked out that did not mention state control of the media and was acceptable to both Western and developing countries.

The South's support for the draft declaration grew out of its feeling of dependency on Western news media and its frustration at receiving only little or skewed attention in those media. The crux of the Third World complaint is that the international communications system (including its technology, advertising, and culture) is generated by and designed to promote the existing international economic system, which serves the rich countries and holds down the poor ones. According to its critics, this media monopoly is anti-developmental in that it facilitates the rich countries' efforts to spread their consumerism, weakens the ability of the public in the Third World countries to resist that pressure, and obstructs the developing countries' efforts to determine and move toward their own vision of the future. (Similar complaints about the effect of the media within their countries are often made by the public in the industrialized countries.) In addition, the volume of information about events in the industrialized countries, together with often unflattering and insensitive coverage of the developing countries and their leaders, tends to reinforce traditional stereotypes and to preempt the transmission of information that is more pertinent, and sometimes vital, to their development needs.

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[18] For further treatment of this issue, see Anthony Pearce-Batten, "Third World Press Coverage: The Debate at UNESCO," Communique No. 33 (Washington, D.C.: Overseas Development Council, 1978).

[19] U.N. Educational, Scientific, and Cultural Organization, "Draft Declaration on Fundamental Principles Governing the Contribution of the Mass Media in Strengthening Peace and International Understanding and in Combating War Propaganda, Racism, and Apartheid," Paris, August 1978.

While developed countries admit that the media do not offer Third World audiences relevant value models, they contend that state "responsibility" for the media would block the "free flow of ideas" on which real development ultimately depends. The developing countries counter that the flow is now one-way and that it must become reciprocal and balanced—that the developed countries' monopoly on communications received by the South must be ended.

Although the information problem is not widely discussed among the public in the North, it has enormous potential importance. It encompasses not only freedom of the press and access of reporters and correspondents to countries and events, but also the assignment of radio frequencies and television channels; the regulation of private telecommunications networks that transmit the computer data essential for modern business; postal and other private communications; the character and quality of advertising; and the exchange of scientific information. Southern criticisms of the existing international information system have been voiced in many international forums as well as at meetings of the non-aligned nations, and many Third World nations are organizing a common stand on the issue. UNESCO is only one forum in which the issue is being discussed. It is likely to be debated at the U.N. Conference on Science and Technology for Development as well and is due to be discussed in the more technical forum of the World Administration Radio Conference, meeting in Geneva in September 1979.

The United States and other industrial democracies philosophically and traditionally oppose efforts to restrict free speech and the free flow of ideas. They should, however, respond to the developing countries' need for greater participation in the dissemination of news, ideas, and information. The Scandinavian countries have announced that they will contribute $4 million (the largest contribution in UNESCO history) to train news-agency and radio journalists in Africa. The United States should make good on its offer of technical assistance for satellite communications programs in health and literacy, regional journalism centers in the Third World, and an international consultative organization, and it should cooperate in exploring possible international regulation of advertising and data transmission so that these do not become "anti-developmental."

The Seabed Negotiations

The longest continuing series of negotiations in the North-South dialogue—and the one that initially offered the greatest promise of success—concerns the oceans. In 1969, the U.N. General Assembly declared that the resources of the seas outside national waters are the "common heritage of mankind";[20] it subsequently convened the Third U.N. Conference on the Law of the Sea (UNCLOS III) to discuss this principle. Since then, a series of negotiating sessions have been held. At the conclusion of the seventh of these in late May 1978, hopes were high that despite several remaining problems, a treaty might be signed by 1980.

Despite its large size, broad scope, and intricate problems, UNCLOS III has produced—by consensus, without ever taking a vote—proposals that already have changed the traditional law of the sea. Some 90 per cent of the Conference agenda is completed and agreed upon. The most dramatic concept to emerge from the negotiations is the exclusive economic zone (EEZ)—the 200-mile zone within which coastal states are to have wide jurisdiction over living and mineral resources, navigation, environmental and pollution control, and certain categories of research.

The controversy over mineral exploitation involves primarily the international deep-seabed area beyond the EEZ, where the major deposits of manganese nodules—which are also rich in copper, cobalt, and nickel—are to be found. The major unresolved controversy continues to be the issue that originally launched UNCLOS III—i.e., the concept of ocean-bed mineral resources as the "common heritage of mankind" to be developed under international regulation, with benefits to be shared by all nations, particularly those with special claims on international resources because they are underdeveloped or landlocked.

Throughout the negotiations, the South, stressing the common heritage principle, has insisted on the creation of a powerful International Seabed Authority (ISA) that would control all stages of exploitation, acquire technology and conduct mining operations, receive substantial financial support, and eventually administer substantial revenues. In contrast, the industrialized countries—which have the technology for deep-seabed mining—have sought a "parallel" system that would guarantee relatively free access to the deposits and consider profits to be the customary return on investment, risk, and expertise. Progress on this impasse was made for the first time at the May 1978 session, when the North expressed willingness to accept an ISA having some licensing powers and receiving royalties, and the developing countries agreed that private corporations would have access to minerals on the ocean floor.

Both the 1976 and 1977 sessions of UNCLOS III had ended in an impasse over the mining question. In early 1978, however, it appeared that a breakthrough on the question of how to allocate access and proceeds to the ISA and the private mining companies might be possible. This was due partly to what one delegate called "a new generation of Third World leadership" and partly to concern that the Carter Administration's support for proposed legislation (which was passed by the House in July 1978) authorizing U.S. corporations to launch deep-seabed mining operations might represent a weakening of U.S. (and perhaps other industrialized-country) commitment to working out a broader agreement. Despite this concern, the subsequent August-September session of the Conference adjourned without having resolved the mining issue.

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[20] U.N. General Assembly Resolution 2749 XXV (1970).

Partly in order to sustain pressure for an agreement, the Carter Administration continues to support passage of some legislation before the Conference resumes on March 19, 1979; this legislation would authorize unilateral mining, although a specified percentage of the profits would be allocated for development. Once a law of the sea treaty is ratified, it will supersede any legislation inconsistent with it. No seabed legislation was enacted in the final days of the ninety-fifth Congress.

Arms Sales and Disarmament

The sale of weapons and related goods and services—and the impact such sales have on international trade balances—have moved the arms race rapidly to the fore as a North-South issue. Military expenditures and arms transfers continue to soar at the same time that essential national and international development-related programs are starved for funds. The developing countries spent approximately $9 billion in 1976 for imported arms. This was a little more than 2 per cent of the world's $400 billion military expenditures and about 10 per cent of their own total military expenditures.[21]

On May 19, 1977, President Carter announced a new U.S. arms transfer policy whose long-term objective is to reduce the level of armaments worldwide and whose principal short-term objectives are to set controls and guidelines and to impose restraints on the transfer abroad, by sales or grants, of weapons and weapons-related items. On February 1, 1978, the President announced an $8.6 billion ceiling level for such transfers in FY 1978. It should be noted that NATO countries, Japan, Australia, and New Zealand are exempted from this ceiling, as are military training and construction.[22] In the long run, however, controls on sales of sophisticated arms and encouragement of restraints on the part of both suppliers and recipients through multilateral agreements may be more important than ceilings. The United States initiated the convening of a U.S.-Soviet working group on arms transfers, which appears to be making some progress. It also has been working with European suppliers to limit transfers.

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[21] See Annex D for information about arms expenditures and total military expenditures.

[22] Lucy Wilson Benson, Under Secretary of State for Security Assistance, Science, and Technology, "U.S. Arms Transfer Policy," testimony to the Subcommittee on International Security and Scientific Affairs, House International Relations Committee, February 1, 1978.

The U.N. Special Session on Disarmament (SSOD), which took place in New York from May 23 to June 28, 1978, was not a negotiating forum, but rather an effort to list priorities, set goals, and focus public opinion on disarmament issues. It confirmed that the nuclear superpowers and the developing countries have widely differing perceptions of disarmament possibilities. While it is generally recognized that there is a potenial trade-off between armament expenditures and development expenditures, the world does not seem to have moved beyond the hortatory stage in effecting such an exchange. Stimulated by the French delegation, the World Food Council, meeting in Mexico City in June, called upon the SSOD "to take concrete and realistic steps which would lead to the freeing of resources as a result of the reduction of military expenditures in order to finance the development of developing countries."[23] While the draft final document referred to "a close relation between disarmament and development," the SSOD itself only urged the Secretary-General to undertake a study of how much disarmament might contribute to a new international economic order and report back to the General Assembly.[24] It is likely that the only effective way to move in this direction would be a deliberate decision by a major power to shift its resources from nonproductive (i.e., armaments) to productive (i.e., development) uses. While such a shift in the allocation of resources could not be expected to be a one-for-one transfer, some of the decreased armament allocations reasonably could be expected to find their way into development expenditures.

The declaration that emerged from SSOD makes it clear that the escalating arms race is seen by most countries more as a threat than a protection and as increasing and intensifying insecurity. The declaration repeats the standing commitment to general and complete disarmament. The program of action discusses in considerable detail both nuclear and conventional armaments and calls for another special session on this subject in 1981 or 1982 to review progress. It was agreed at SSOD that the Geneva Committee on Disarmament, co-chaired up to this point by the United States and the U.S.S.R., should be broadened to include all nuclear states and should have a rotating chairmanship—which may bring in France and other interested powers.

The Special Session—a non-aligned-country initiative—was convened for the purpose of providing a forum broader than bilateral negotiations. It also offered the opportunity for a large amount of nongovernmental participation and discussion both at the SSOD itself and in a parallel forum.

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[23] *Report of the World Food Council on the Work of its Fourth Session*, U.N. General Assembly Official Records: Thirty-Third Session, Supplement No. 19 (A/33/19) (New York: United Nations, 1978), para. 57.

[24] U.N. General Assembly, "Draft Final Document of the Tenth Special Session of the General Assembly," U.N. Doc. No. A/S-10/23 (Part II), 1978.

While there was no indication that either of the superpowers is prepared to shift from the SALT II negotiations to a broader framework, the SSOD established two follow-up mechanisms: a Disarmament Commission for wider U.N. deliberation and a Committee on Disarmament with four of the five nuclear states (not China) participating. Although a reduction in arms expenditures is an obvious source of increased development assistance funds, only a little attention was given to the relation of disarmament to development; even less attention was given to reducing the South's expenditures on arms. Neither the North nor the South is ready for disarmament; the political will does not exist. Yet almost any kind of beginning is better than none, and SSOD was a good bit better than that.

Science and Technology for Development

The broad subject of the relationship of science and technology to development will be taken up by the U.N. Conference on Science and Technology for Development (UNCSTD) in Vienna in August 1979. This subject has been of continuous concern to the United Nations and its specialized agencies for at least two decades—a major U.N. Conference on Science and Technology was held in Geneva in 1963—and has received increasing attention from the developing countries in the 1970s.

The decision to convene UNCSTD was taken by the Seventh Special Session of the U.N. General Assembly in 1975 and endorsed by the General Assembly in December 1976. The United Nations established a firm, explicit link between the Conference and the new international economic order and stressed the importance of applying science and technology to improve the quality of life for all people.[25]

UNCTAD V, which will take place two months prior to UNCSTD, may have considerable impact on at least one aspect of the UNCSTD agenda—a code of conduct for the transfer of technology—to which the developing countries assign great importance. The UNCTAD preparatory negotiations on a technology-transfer code have not resolved the differences in the viewpoints between the North and the South. The developing countries propose a mandatory code with the following elements: a) free access to technology, with no restrictions on its use, on the assumption that technology that can assist development is the common patrimony of all people, no matter who developed it; b) cost reductions to offset what they see as a monopoly pricing structure; c) limits on foreign control over a country's natural resources; and d) acceptance by companies that engage in technology transfer of greater responsibility for inappropriate or culturally disruptive transfers and investments. The developed countries, on the other hand, prefer a voluntary code that leaves to private negotiations the issues of appropriateness of technology and cost; they argue that multilateral efforts should be aimed at negotiating rules and procedures for expropriations and that, once the risk of drastic change in the rules of the game is removed, technology will flow more easily across national boundaries. They contend that the proprietary nature of technology makes many of the developing-country demands impossible to meet.[26]

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[25] U.N. General Assembly Resolution 31/184, December 21, 1976, listed the following objectives for the Conference: "a) to adopt concrete decisions on ways and means of applying science and technology in establishing a new international economic order, as a strategy aimed at economic and social development within a time frame; b) to strengthen the technological capacity of developing countries so as to enable them to apply science and technology to their own development; c) to adopt effective means for the utilization of scientific and technological potentials in the solution of problems of development of national, regional and global significance, especially for the benefit of developing countries; d) to provide instruments of cooperation to developing countries in the utilization of science and technology for solving socio-economic problems that cannot be solved by individual action, in accordance with national priorities."

The developing-country argument reinforces a widespread fear in the United States—and most other industrialized countries—that overseas dissemination of technical know-how and technology will generate competition that will eliminate markets abroad and jobs at home. Both labor and business groups have expressed almost as much concern about this as about the more immediate threat of competition in such vulnerable sectors as textiles, shoes, and small electronics. Because of the differences in perspectives, it was considered unlikely, in the fall of 1978, that a compromise draft of the technology-transfer code would be approved before the end of the year.

The U.N. Conference on Technical Cooperation among Developing Countries (TCDC) was held in Buenos Aires from August 30 to September 12, 1978. This conference, which was primarily a developing-country event, was described by its Secretary-General, Bradford Morse, Administrator of the U.N. Development Programme (UNDP), as "the first global intergovernmental meeting on the subject of technical cooperation for development of any kind under any auspices." The Conference also can be viewed as a prologue to UNCSTD. Its two main stated purposes were 1) to focus on technical cooperation among developing countries as a new dimension of international cooperation for development and as a means of reducing these countries' "brain drain" and their dependence on expensive and often inappropriate technology, and 2) to adopt a plan of action for promoting and implementing such cooperation. Sponsors and participants took great pains to assure Northern countries that the Conference was not a threat to them and that the improvement of technical cooperation was not to be viewed as a substitute for aid from the North. Nevertheless, the purpose of the Conference clearly was to deal with distortions in the technical resource flow between North and South.

The results of TCDC are expected to have considerable bearing on the atmosphere at UNCSTD. Moreover, the emphasis placed on "self-reliance" (meaning interdependence among developing countries, rather than self-sufficiency in any autarkic sense) was a positive step toward the establishment of a new international economic order. For the most part, the Conference avoided the polemics and North-South polarization that have characterized many meetings in the past. Except for one or two political gestures, such as Libyan criticism of Israeli credentials, the delegations concentrated purposefully on the work at hand and focused on technical cooperation rather than on political confrontation. The U.S. posture was affirmative, modest, and cooperative. It is to be hoped that this atmosphere can be sustained at UNCSTD.

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[26] For a discussion of the relationship between technology, culture, and development, see Denis Goulet, *The Uncertain Promise: Value Conflicts in Technology Transfer* (New York: IDOC/North America, 1977).

UNCSTD is of great interest to the Third World. Nearly all of the recommendations summarized and consolidated in October 1978 in the Secretary-General's "Draft Outline of the Programme of Action" were made by developing countries.[27] In contrast to the earlier U.N. Conference on Science and Technology, held in Geneva in 1963, UNCSTD is mandated to be action-oriented and concerned with quantified targets, new concepts of development, and concrete socio-economic improvements.[28] The U.N. literature about the preparations for UNCSTD refers repeatedly to "obstacles" to the adaptation and application of science and technology for development to the "choice and transfer" of technology for development (which is the first item on the UNCSTD agenda), and to the necessity for a "reassessment" of the technology imbalance between developed and developing countries. This imbalance is reflected in the fact that 90 per cent of the technological innovations take place in and for the developed countries, which have at most 30 per cent of the world's population. The "monopolistic character of the international technology market" is perceived by most countries to be a major obstacle to harnessing science and technology for development.[29]

Most of the countries of the South believe that developed countries and transnational corporations are obstructing their access to the technology they need. They also view the North's insistence on the private, nongovernmental character of copyrights, patents, and licensing requirements governing particularly the most advanced technologies as either a smokescreen or simply irrelevant. The developing countries want more technology transfer, and they want it on terms that reduce their dependence on the North. The official guideline for the national papers—which will be "the essential instrument of the Conference"—stresses "analysis of the factors which increase or decrease such [technological] dependency and . . . the determining factors in the transfer of technological capacity and the importation of technology." In addition to technology transfer, the development of indigenous technological capability is the other major theme being advanced by the South.

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[27] U.N. General Assembly, "U.N. Conference on Science and Technology for Development: Draft Outline of the Programme of Action, A Note by the Secretary-General," U.N. Doc. No. A/33/303, October 20, 1978.

[28] *Report of the Preparatory Committee for the United Nations Conference on Science and Technology for Development*, U.N. General Assembly Official Records: Thirty-Second Session, Supplement No. 43 (A/32/43) (New York: United Nations, 1978).

[29] U.N. General Assembly, Doc. No. A/33/303, op. cit.

The developing countries recognize that most high technology was developed for reasons of either profit or defense, rather than development, and that all governments, even those most devoted to the free market, control arms and nuclear technology and their transfer. They want to reassess this profit and defense orientation and to make the relationship of science and technology to development the top priority for science and technology policy. They perceive this objective to be inextricably linked to their call for a new international economic order.

As preparations proceed for UNCSTD, the U.S. Administration—in line with its continuing effort to restructure the U.S. foreign assistance program and to establish more effective linkages with middle-income as well as lower-income countries—is in the process of establishing a Foundation for International Technological Cooperation (FITC). The creation of such a foundation, which also represents a strong attempt to involve the science and technology community more deeply in the endeavor to help poor countries meet their basic human needs, was recommended in the recent Brookings Institution's report on restructuring foreign assistance.[30] The decision to create the FITC was announced by President Carter in his major address to the legislature of Venezuela in March 1978. A small staff and an experienced advisory committee are now in the process of exploring the proposed FITC's purposes, organization, and relationship to the rest of the foreign assistance program. FITC probably will constitute a major feature of the U.S. position at UNCSTD.

In 1977, the Carter Administration established an Office of the U.S. Coordinator for UNCSTD within the Department of State. Under the sponsorship of this Office—whose purpose is to provide support for the U.S. delegation to UNCSTD and to prepare the national paper—representatives from nongovernmental groups, business, and labor met all across the country to give the Administration opinions on what U.S. technology policy should be. In addition, the 1977 foreign relations legislation authorized the President to "take appropriate steps to ensure that at all stages" of UNCSTD "the development and use of light capital technologies" is emphasized by the U.S. representative.[31] This was an attempt by Congress to ensure that the world's increasingly scarce capital would be stretched to help all the world's poor.

The U.S. national paper relies for its basic thrust on the viewpoints expressed by the private sector and by Congress—as well as on the proposal for the FITC. It takes the position that UNCSTD should have the following goals: a) to ensure that science and technology contribute fully to overcoming the worst aspects of poverty in developing countries by the year 2000, b) to take further steps toward the evolution of a mutually beneficial new international economic order in the context of self-reliant growth, and c) to prepare the ground for more effective efforts to engage science and technology in these problems of common concern. According to the United States, these goals would provide a sound and promising base for future international cooperation in science and technology.

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[30] Lester E. Gordon et al., *Interim Report: An Assessment of Development Assistance Strategies* (Washington, D.C.: Brookings Institution, 1977).

[31] Foreign Relations Authorization Act: Fiscal Year 1978, Public Law 95-105, Section 507.

In the field of proprietary technology, however, it is not yet clear how far the U.S. position will go toward meeting the strong contention of some developing countries that the profit-making enterprises of the North, which are the principal source of commercial and industrial technology, have little regard for the development impact (or the anti-development impact) of the manner in which they play their potent roles in the world economy.

UNCSTD will bring to a close the series of major conferences held under the auspices of the United Nations on specific development-related topics: the environment (Stockholm, 1972), population (Bucharest, 1974), food (Rome, 1974), women (Mexico City, 1975), human settlements (Vancouver, 1976), desertification (Nairobi, 1977), and technical cooperation among developing countries (Buenos Aires, 1978). It will be the last such conference before the 1980 U.N. General Assembly special session that is to deal with development cooperation for the remainder of the century, and it has the potential for affecting that session considerably.

For this reason, the United States should be neither passive nor resistant, but affirmative, in its preparations for, and participation in, UNCSTD. With adequate preparation, and if the United States contributes leadership to some effective results at UNCTAD, it should be possible to avoid having UNCSTD degenerate into a rancorous and futile argument about patent rights and help it make a major contribution to planning for development progress in the 1980s and 1990s.

Energy and the Developing Countries

In April 1977, President Carter proposed his four-point national energy plan, aimed at reducing oil imports from 8 million to 6 million barrels per day by 1985. The four points of the plan—designed primarily to address domestic concerns—are conservation, incentive pricing, conversion by large consumers from oil and gas to coal and other sources, and development of renewable energy resources. The President also proposed that a Department of Energy (DOE) be created to execute the plan. The DOE was authorized by Congress and came into existence in 1977. About a year and a half later—after the Bonn summit, where most of the other developed-country heads of government blamed high U.S. oil imports for a good deal of the world's economic problems—Congress passed a watered-down version of the original far-reaching proposal; this was a first, but far from dramatic, step toward a rational energy policy.

Congress did, however, provide $18 million in FY 1978 foreign aid appropriations for "cooperative programs with developing countries in energy production and conservation," particularly for small-scale, decentralized, renewable energy sources for rural areas as integral parts of overall rural development efforts.[32] In accordance with this legislation, the U.S. Agency for International Development (AID) commissioned a variety of technical studies of renewable energy in the Third World and began to play an active role in regard to the energy needs of the developing countries by promoting applied research and development (R and D) and improving their energy planning and R and D capacity. The U.S. purpose is to test whether at least some of the developing countries can move far more directly than under present projections to use of renewable energy sources (especially solar), thereby skipping much of the obsolescing oil phase. In the fall of 1978, the United States also announced its support for the U.N. Conference on New and Renewable Energy proposed for 1981. Both of these are welcome decisions. It appears that the elimination of the worst aspects of absolute poverty by the year 2000 will not be possible without more modern forms of energy. Attempting to achieve this goal along historic oil-intensive patterns would place a heavy demand on the planet's remaining supply of oil.[33]

Nuclear energy has been an especially difficult and sensitive area. India's "peaceful nuclear explosion" in 1973 led to increased efforts by the United States, the Soviet Union, and some other nuclear suppliers to close the loopholes in international nuclear energy technology transfer that might permit weapons proliferation. The new Administration successfully persuaded Taiwan and South Korea not to purchase nuclear energy facilities with weapons-making potential. However, it pressed the point with such vigor and lack of concern for national sensitivities in either Europe or the developing countries that a backlash set in, particularly in Brazil. With the benefit of a subsequent course correction and a less heavy-handed approach, considerable progress was achieved in late 1977 and 1978; for example, the fact that France cancelled a sale of nuclear technology to Pakistan was in part due to U.S. efforts.

In the summer of 1977, the United States met in London with the fifteen present or soon-to-be exporters of nuclear energy technology. This Nuclear Suppliers Group agreed upon a set of guidelines designed to limit the diversion of "sensitive nuclear materials" to weapons development and urged restraint on would-be exporters of such materials to the Third World. In addition, the Administration initiated a two-year multilateral effort—the International Nuclear Fuel Cycle Evaluation Review, involving forty developed and developing nations—to propose new avenues for development of nuclear energy technologies that minimize the potential for weapons proliferation and radioactive pollution.

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[32] International Development and Food Assistance Act of 1977, Public Law 95-88, Section 119(a)(1).

[33] See Chapter 2, pp. 66-68.

The United States also passed legislation in early 1978 requiring any importer of nuclear technology from the United States to permit the International Atomic Agency to inspect its nuclear facilities. The United States presently is considering an agreement with Japan to establish a Pacific center for receipt and processing of nuclear wastes and has been exploring the possibility of similar centers elsewhere.

While the Administration has shown its interest in tightening controls over energy materials usable in making weapons and over the facilities that produce them, the developing countries have been little involved in any of the decisions on nuclear energy. Congress appropriated funds for energy surveys to help the developing countries find alternatives to nuclear energy, but in doing so, it started with an answer (i.e., non-nuclear energy for the developing countries) rather than the question (i.e., how can the United States help developing countries meet their energy needs). As a result, developing-country interest in such surveys is relatively low. The United States should shift away from its negative stance toward an emphasis on helping the developing countries develop both nonrenewable and renewable energy supplies to advance their development goals. The energy issue offers a major opportunity for North-South cooperation.

The World Food Situation[14]

Food-related issues have been a major concern of several international forums during the last two years. The U.N. Food and Agriculture Organization (FAO) concluded a reasonably successful biennial conference in Rome in November 1977 and began laying the groundwork for a World Conference on Agrarian Reform and Rural Development to take place in Rome from July 12 to July 20, 1979. Preparatory meetings have been held in all of the major developing regions, but without strong commitments to the kinds of land-reform measures that benefit the small farmer and that may well be prerequisites for lasting and meaningful rural development in many countries. Although there is considerable private-organization interest in the Conference, the U.S. government as of late 1978 was not well organized in this preparatory phase. U.S. policy appears to accord it rather low priority, as it does to the FAO itself.

The World Food Council, created by the 1974 U.N. World Food Conference in Rome to coordinate the Conference results and to be the highest organ of the United Nations on food policy, held its fourth annual meeting in Mexico City in June 1978. It found it necessary to describe the world food situation in the same stark terms it had used in Manila the year before: progress toward the Council's objective of relieving world hunger has been painfully slow.

In its Mexico Declaration, the Council agreed that "the low rate of increase in food production in the food-deficit developing countries reflects the failure of the international community to achieve the high priority for those objectives called for by the World Food Conference and the Manila Communique."[15] It expressed its concern about slow progress in mobilizing external resources, adjusting the agricultural sector in food-deficit countries to encourage food production, achieving a higher priority for nutrition, overcoming constraints to food production and distribution, achieving greater support by multilateral and bilateral donors to increase the supply of agricultural inputs, and carrying out agrarian and socio-economic reforms.

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[14] See Chapter 2, pp. 63-66, for further treatment.

Among other things, the Council called on all governments to participate actively in the World Conference on Agrarian Reform and Rural Development. To underscore the importance it attached to that Conference, which is to meet in July, the Council postponed its own fifth session until September, at which time it will meet in Canada.

The $1 billion International Fund for Agricultural Development (IFAD)—the other institution that grew out of the 1974 World Food Conference—to which the United States contributed $200 million, was established in November 1977.[16] It approved its first projects in early 1978.

Intensive negotiations, begun in February and March 1978 in the International Wheat Council and continuing in June under UNCTAD auspices, failed to produce either a new International Wheat Agreement (to replace the 1971 Agreement, which had been extended to June 1978) or a grain reserve arrangement—even though most of the participating countries, including the United States, had signed the "International Undertaking on World Food Security" sponsored by the U.N. Food and Agriculture Organization, providing for special assistance to developing countries to ensure an adequate supply of grain. The 1971 International Wheat Agreement, which none of the parties now considers adequate, was extended for another year until July 1, 1979. At the June negotiations, the United States increased its pledge under the Food Aid Convention of the International Wheat Agreement to 4.47 million metric tons and promised an additional 20 per cent in shortfall years. The interim committee of the International Wheat Council, which met in October 1978, was still unable to resolve basic differences between the European Community and the United States over trigger price levels; however, the committee did make enough progress to justify submitting to the full conference, meeting in Geneva in November, the draft texts of the three conventions that would make up the new agreement.

The Administration's heightened interest in the world food situation was marked by the fact that Secretary of Agriculture Bob Bergland headed the U.S. delegation to the meeting of the World Food Council in 1977 and 1978; his predecessor had never attended a Council session. And U.S.

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[15] *Report of the World Food Council*, op. cit., p. 4.

[16] IFAD was an initiative of the delegation from Saudi Arabia at the World Food Conference of 1974; the composition of its governing board makes it unique among international financial institutions: one third of its members are from the OECD countries, one third from the OPEC countries, and one third from recipient countries.

Secretary of State Vance, addressing the U.N. General Assembly in September 1978, underlined the President's concern once again by noting that "our first urgent priority is assuring adequate food and stable agricultural prices for all people." He proposed that the General Assembly, four years after the World Food Conference, "review the world food situation—to identify the current obstacles to progress and to restore a sense of urgency to meeting mankind's most basic need."[37]

Congress increased its support for agricultural and other food-related programs; it appropriated more funds for assistance to food production in poor countries in FYs 1978 and 1979 than in previous years. It also made available the full amount requested for the fifth replenishment of the International Development Association (IDA) (most of which goes for rural development in poor countries) and paid up more than half of the two-year U.S. delinquency on the fourth replenishment of IDA.

The United States also engaged in discussion or action on the following three different, but related, food reserve policies and programs in 1977 and 1978.

1. The Food and Agriculture Act of 1977 called for a farmer-held U.S. domestic grain reserve of between 300 million and 700 million bushels of wheat.[38] Once storage payments were increased early in 1978, farmers accumulated this rapidly. By late 1978, about 400 million bushels were in the farmer-held reserve.

2. The 500,000-ton (about 18.5 million bushels) International Emergency Reserve called for by the Seventh Special Session of the U.N. General Assembly nearly reached its target in the first quarter of 1978; the United States contributed 125,000 tons. Since it was depleted by more than a third by the time of the World Food Council's Mexico City session, the Council recommended that the reserve be a continuing one, with periodic replenishments. By the end of October 1978, however, the 500,000-ton target still had not quite been reached. In October, the United States announced its pledge of a second 125,000 tons.

3. Senate hearings on the Administration's proposed government-held international emergency wheat reserve of 6 million tons (220 million bushels) underscored the Congress's caution regarding this method of handling reserves. Such holdings would require stipulated prices for buying and selling the grain, and producers are very resistant to mandatory release prices. In late September, Congress still was debating legislation to establish an international emergency wheat reserve of 3 million to 6 million tons, tied to the Food for Peace Program and carefully insulated from the market. In the adjournment rush, however, the reserve bill failed to reach the floor for a vote.

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[37] Vance, op. cit. The Secretary devoted a significant segment of his address to the food problem.

[38] Food and Agriculture Act of 1977, Public Law 94-133.

In 1977, Congress added a third part to the Food for Peace Program (P.L. 480); Title III, called the Food for Development Program, permits recipients of food under the concessional sales program (Title I) to make repayments in local currencies if those funds are devoted to rural development projects. In addition, a comprehensive inter-agency review of P.L. 480 was completed in May 1978, with considerable input from the private sector; this review made useful specific recommendations for increasing the proportion of food aid provided on a grant basis (Title II) in the total program, for greater planning and assurance of continuity, and for redesigning program goals to highlight development.[39]

Public and congressional concern about the continuing hunger and malnutrition of nearly one half billion people despite three years of favorable harvests, together with the conclusion of the National Academy of Sciences *World Food and Nutrition Study* that the worst aspects of hunger could be eliminated by the end of the century,[40] prompted President Carter to create a World Hunger Working Group within the Executive Branch in September 1977. The Group was charged with recommending a new, more direct attack on the problem of hunger. In September 1978, the President released the Working Group's report[41] and announced the creation of the Presidential Commission on World Hunger, headed by Sol M. Linowitz, former U.S. Representative to the Organization of American States and a principal negotiator of the Panama Canal Treaties, to help inform the public on these matters and recommend policies to the Administration. The Commission, consisting of twenty persons (four of whom are members of Congress), had been called for in a resolution passed by both houses of Congress in late 1977.[42] The Executive Order establishing the Commission mandates it to [illegible] the problem of world hunger; review existing programs; make recommendations for new or modified policies, programs, and decision-making processes; and educate the public about the problem.[43] If the Commission does these things well and makes recommendations without regard to existing budget ceilings, it may have a significant impact on U.S. policy and on world hunger and malnutrition.

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[39] *New Directions for U.S. Food Assistance: A Report of the Special Task Force on the Operation of Public Law 480* (Washington, D.C.: U.S. Department of Agriculture, 1978).

[40] *World Food and Nutrition Study: The Potential Contributions of Research* (Washington, D.C.: National Academy of Sciences, 1977).

[41] *World Hunger and Malnutrition: Improving the U.S. Response*, A Report to the President by the World Hunger Working Group (Washington, D.C.: Government Printing Office, 1978).

[42] Members of the Presidential Commission on World Hunger are: Sol Linowitz (Chairman); Jean Mayer (Vice-Chairman), President of Tufts University; Steven Muller (Vice-Chairman), President of Johns Hopkins University; Norman E. Borlaug, Nobel Laureate in agriculture; David W. Brooks, Goldkist Corporation; Harry Chapin, recording artist and co-founder of World Hunger Year; John Denver, recording artist and supporter of the Hunger Project; Sen. Robert Dole (R., Kansas); Walter P. Falcon, Director of the Food Research Institute and Professor of International Agriculture Policy and Economics, Stanford University; Rep. Benjamin A. Gilman (R., 26th District, New York); Muriel Humphrey; Sen. Patrick Leahy (D., Vermont); Bess Meyerson, former Director of Consumer Affairs; Rep. Richard Nolan (D., 6th District, Minnesota); Howard A. Schneider, Director of the Institute of Nutrition and Professor of Biochemistry and Nutrition, University of North Carolina; Adele Smith Simmons, President of Hampshire College; Raymond C. Singletary, Jr., President of the Blakely Peanut Co.; Eugene Stockwell, Associate General Secretary, Overseas Ministries, National Council of the Churches of Christ in the U.S.A.; Clifton R. Wharton, Jr., Chancellor of the State University of New York; and Thomas Wyman, President, Green Giant Co.

It is ironic that at almost the same time that the resolution was being passed in late 1977, the Administration found it necessary to respond to the domestic grain surplus, and the resulting congressional pressure, by offering farmers incentives to [illegible] aside up to 20 per cent of their wheat acreage and 10 per cent of their corn acreage in order to reduce production and maintain farm incomes. In spite of these cutbacks, however, many observers still expect U.S. agricultural exports to set new records in 1978 in both quantity and money terms. In mid-October the Department of Agriculture announced a record corn crop, and in mid-November it became clear that the Administration would have to give serious consideration to further incentives to reduce grain production, despite their possible inflationary effects.

For the near-term future, while the Presidential Commission pursues its objectives and while the reorganization of policy and programming in the food and agricultural field proceeds under the auspices of the President's reorganization project, a major focus of U.S. policy should be on creating the international emergency reserve that will be back on the congressional agenda early in 1979. Thereafter, effort should be focused on integrating this reserve into an international food reserve system related to a new International Wheat Agreement. The Administration should intensify its effort to conclude that Agreement as well as a generous Food Aid Convention and special provisions for the food-deficit countries. Finally, the United States shortly will need to give consideration to the replenishment of IFAD.

Basic Human Needs and U.S. Development Assistance

As noted in Chapter 1, the World Employment Conference sponsored by the International Labour Organisation in June 1976 called for incorporating direct action on basic human needs in any comprehensive development strategy. While the Conference did not agree to any uniform minimum standard for basic human needs—and did not formally agree to set the year 2000 (proposed by the ILO Secretariat in its comprehensive study prepared for the Conference[44]) or any other specific target date as the time by which basic needs should be met in all countries—the Programme of Action adopted stated explicitly that basic human needs include: "certain minimum requirements of a family for private consumption: adequate food, shelter, and clothing," "essential services provided by and for the community at large, such as safe drinking water, sanitation, public transport, and health, educational and cultural facilities," and "freely chosen employment." It also stated that basic needs "implies the participation of the people in making the decisions which affect them."[45] Although the Conference reached no agreement on how these ends should be achieved, there was a clear consensus on what they are. A novel aspect of the Conference was its parallel emphasis on the internal and international policies that are required for the success of a serious effort to eliminate absolute poverty in all countries. It was the first time that an international forum with a majority of participants from developing countries had insisted on the necessity of *internal* as well as interstate reforms.

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[43] Executive Order No. 12078, Office of the White House Press Secretary, September 5, 1978.

[44] ILO International Labour Office, *Employment, Growth and Basic Needs: A One-World Problem*, published for the Overseas Development Council in cooperation with the International Labour Office (New York: Praeger Publishers, Inc., 1977), p. 40.

Since the World Employment Conference—as the overview essay of this *Agenda* points out—the objective of meeting basic human needs within the specific time frame of the remainder of this century, together with a discussion of some specific targets for such an approach, has gained increased legitimacy internationally as well as in the United States.[46]

In the early 1970s, the U.S. Congress, too, began to show its concern for people by including basic human needs provisions in some of its legislation. In accordance with the 1973 "new directions" amendments to the foreign assistance act, U.S. bilateral development assistance over the past few years has been used increasingly for small-scale projects in food and nutrition, health and family planning, and education and human resource development. As of FY 1977, the United States provided nearly all its assistance on a grant basis to those countries considered "least developed" by the United Nations.

Congressional emphasis on basic human needs recognizes that so-called economic human rights are the other side of the human rights coin, whose absence robs political human rights of much of their meaning. In 1977, Congress reaffirmed its conviction that a larger proportion of U.S. bilateral assistance should be targeted on basic human needs and on the poorest countries; an amendment to the foreign assistance act required that development assistance be increasingly concentrated in countries, especially low-income countries, that are committed to helping the poorest people to achieve a better life and can effectively use assistance in doing so. The President was asked to propose socio-economic criteria to assess the commitment and progress of recipient countries in meeting the basic needs of their poorest people. AID submitted a list of these to Congress, which also wants the President to urge that these criteria be adopted in international development organizations of which the United States is a member.[47] The

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[45] Ibid., pp. 191-92.

[46] See pp. 6-8 of this volume.

[47] ODC's development of the Physical Quality of Life Index (PQLI) and the Disparity Reduction Rate (DRR) (discussed in greater detail on pp. 129-44) came in response to this widely expressed concern. Not only the U.S. Congress, but also many of the other sources emphasizing basic human needs—including the U.N. Secretary-General and the Tinbergen Group in its RIO report—have also stressed the desirability of developing more widely usable measures of progress toward meeting those needs than have been provided by existing indicators.

International Financial Institutions Act of 1977, moreover, requires that the U.S. government use its voice and vote in those institutions to emphasize assistance to basic human needs projects.[48]

In the Food for Peace Program, too, Congress reiterated its intent that more U.S. assistance be focused on poor countries and on basic-needs-related programs. Seventy-five per cent of food aid commodities under concessional sales must continue to go to countries meeting poverty criteria (in this case, members of the International Development Association having per capita incomes of $520 or less, in 1975 dollars). The Food for Development Program added to P.L. 480 by Title III is designed for countries that meet IDA's poverty criteria, need external resources, and desire to improve their food production, marketing, distribution, and storage systems. Funds accruing from the local sale of concessionally financed U.S. agricultural commodities may be applied against the developing country's repayment obligations and used for specific agricultural and rural development programs.[49] A minimum of 5 per cent of Title I funds was to be allocated for the new program in 1978, 10 per cent for 1979, and 15 per cent for 1980 and thereafter. Yet this program has moved so slowly that the 5 per cent floor was not reached in FY 1978; only two Title III agreements—those with Bangladesh and Bolivia—were signed.

The developing countries themselves and such institutions as the Organisation for Economic Co-operation and Development and the World Bank have been calling for increased concessional financing for development programs. But the United States has allocated few new funds to its bilateral assistance program. The increase in the U.S. multilateral assistance program has also been modest; the apparently large increase—from a little over $1 billion in FY 1977 to almost $2 billion in FY 1978 and about $2.5 billion in FY 1979—resulted in large part because the appropriation included funds for partial payment of pledges on which the United States was in arrears and in part because it included, at congressional insistence, callable capital (i.e., capital that is committed but not transferred to the international financial institutions and thus not likely to be used, since it is merely backing for loans).

Despite President Carter's intention, expressed during his campaign and during his first year in office, to raise substantially the U.S. contribution to development assistance, the increase in bilateral development assistance funds appropriated for FY 1979 (in response to the first budget proposed entirely by the Carter Administration) was relatively small. The program will have to grow much more rapidly in subsequent years to reach the reported presidential target of doubling official development assistance (to $8.3 billion) in current dollars over the five-year period ending in 1982.

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[48] International Financial Institutions Act, 1977, Public Law 95-118.

[49] Section 211 of the International Development and Food Assistance Act of 1977 added Title III to the Food for Peace Program.

The most recent report of the OECD shows U.S. official development assistance (that is, bilateral and multilateral assistance combined) at a record low of 0.22 per cent of GNP.[10]

While the rhetoric of both Congress and the President about the necessity of increased concentration on, and funding for, basic needs projects and low-income countries gets stronger each year, the United States has yet to organize, finance, or target its foreign assistance program in a manner designed to carry out the commitment to the basic needs emphasis of the "new directions" legislation. The late Senator Hubert H. Humphrey called attention to this discrepancy in a statement written about the proposed International Development Cooperation Act of 1978—which recommends far-reaching changes in the structure, operation, and coordination of U.S. development assistance:

> Our development assistance programs, unlike our major expenditures in the Middle East to support political and security objectives, do not have specific goals, but only commendable emphases, such as helping the poor and increasing food production. Our implementation machinery is badly fragmented and lacks the confidence of much of the Congress and the American people.[11]

Senator Humphrey recognized that a recommendation by the Administration to put more money into basic needs programs would be politically unpersuasive unless it was accompanied by a reformulation of the purpose of U.S. development assistance and a reorganization of the offices administering that assistance. After the Humphrey proposals were considered by the State, Treasury, and Agriculture Departments, AID, the Peace Corps, White House staff offices, and other parts of the Executive Branch, the Administration opted for an immediate upgrading and broadening of the existing coordinating mechanism, the Development Coordination Committee (DCC), and for the establishment of the Foundation for International Technological Cooperation discussed above. Still under consideration is the desirability of a new International Development Cooperation Agency into which AID, the DCC, the Peace Corps, and possibly other offices (most notably those dealing with the increasingly important multilateral and international agencies now in the Treasury and State Departments respectively) would be incorporated. The 1978 foreign assistance legislation requires the President to report, by February 1, 1979, on the steps he has taken to improve "coordination and administration of the development-related programs and policies of the United States."[12]

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[10] See Annex E, Tables E-18 through E-22, for information about U.S. official development assistance. Other tables in Annex E show information about assistance provided by other countries.

[11] *Congressional Record*, Vol. 124, No. 5, January 25, 1978, S-409.

[12] International Development and Food Assistance Act of 1978.

Human Rights and U.S. Policy

Emphasis on human rights has been one of the most distinctive features of the Carter foreign policy. It builds on the increasing attention paid to this subject by both private individuals and organizations (especially Amnesty International, whose leaders were awarded the Nobel Peace Prize in 1977 for their efforts) and governments (in the context of the Helsinki Accords).

The United States signed two U.N. treaties in 1977—the Covenant on Social, Economic, and Cultural Rights and the Covenant on Civil and and Political Rights. Both need to be approved by the Senate, however, which has had two other U.N. human rights conventions—the Genocide Convention (1946), and the Convention on the Elimination of all Forms of Racial Discrimination (1965)—on its docket for many years. Even though the President supports the U.N. proposal to create the post of High Commissioner for Human Rights, the United States has not ratified any of the major U.N. human rights conventions.

The human rights operations and offices of the U.S. government have been strengthened under the Carter Administration. The State Department's Office of Coordinator for Human Rights and Humanitarian Affairs was upgraded to the level of Assistant Secretary, and full-time human rights officers were designated in each of the Department's geographic bureaus. A new human rights coordinating group—the Inter-Agency Committee on Human Rights and Foreign Economic Assistance, chaired by the Deputy Secretary of State—was set up by the Administration to coordinate U.S. actions on the implementation of human rights policy in both bilateral and multilateral assistance programs.

The President has made an "absolute commitment" to place human rights at the center of U.S. foreign policy. The Secretary of State has said, however, that, while the United States would "speak frankly" in support of international human rights, it would not do so in every case, but only when "advisable." The State Department outlined a flexible implementation policy, emphasized that its success can be measured only over the long term, and pointed out that human rights foreign policy objectives must be considered along with other economic and security goals of the United States.

The Administration has defined human rights to include the satisfaction of basic needs as well as the observance of political and civil liberties and the protection of the security of the person; it has relied on both private and public diplomatic channels to convey its human rights message. Government officials have brought up human rights in discussions with many foreign leaders, urging the release of political prisoners and an end to repressive acts. In a few instances the Administration has cut off bilateral economic and military assistance. In the case of Nicaragua, however, it was the Senate that voted to cut off foreign assistance a few months after President Carter had commended the apparent improvement in the human rights situation there. Such potential policy instruments as U.S. trade, technology transfer, investment, or tourism have not yet been used except, in a very limited way, against the U.S.S.R.

Human rights provisions in the U.S. foreign assistance legislation prohibit economic and military assistance to any country "which engages in a consistent pattern of gross violations of internationally recognized human rights," unless the economic aid will directly benefit the "needy people" of the country, or unless "extraordinary circumstances" necessitate military aid.[33] Although several countries that receive U.S. economic and military assistance could probably be considered in violation of these prescriptions, in FY 1978, military or economic programs were reduced or terminated in only a few cases. In its FY 1978 programs, the Administration increased military aid to South Korea, a country repeatedly singled out by nongovernmental human rights monitoring groups as an abuser of human rights. In the context of the interacting forces described in Chapter 1, the Administration is finding it difficult to devise and apply consistent human rights criteria. Selective application of its human rights policy has led many of the proponents of increased attention to human rights to criticize the Administration for employing a double standard.

In 1977, Congress added a human rights provision to the Food for Peace Program.[34] As a result of the Inter-Agency Human Rights Committee's review of Title I food aid loans, a few countries judged to have serious human rights problems were asked to agree to special provisions designed to ensure that the aid would serve basic needs objectives.

In 1976, Congress had extended human rights provisions to the Inter-American Development Bank and the African Development Fund. In 1977, it extended them to the World Bank, the International Development Association, the International Finance Corporation, and the Asian Development Bank, by requiring U.S. representatives to those organizations to "oppose any loan, any extension of financial assistance, or any technical assistance" to countries engaging in a consistent pattern of gross violations of internationally recognized human rights unless the assistance is for programs serving the basic human needs of their citizens. Congress also called on the Secretaries of State and Treasury to "initiate a wide consultation designed to develop a viable standard for the meeting of basic human needs and the protection of human rights and a mechanism for acting together to ensure that the records of international economic cooperation are especially available to those who subscribe to such standards."[35] Despite this requirement, the Administration's report to Congress reflects consultation mainly among donors and within multilateral institution channels.

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[33] International Development and Food Assistance Act of 1977, Section 116.

[34] Agricultural Trade and Development Assistance Act, Public Law 83-480, Section 112 (added in 1977).

[35] International Financial Institutions Act, 1977, Section 703.

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In 1977 and 1978, the United States voted against, or abstained on, several proposed World Bank loans to repressive governments in developing countries, including Ethiopia, Chile, Argentina, South Korea, and the Philippines. None of these votes prevented the loans from being approved.

The Carter Administration missed a unique opportunity to underscore the seriousness of its commitment to both human rights and basic needs when it permitted the U.S. withdrawal from the International Labour Organisation (ILO), which had been set in motion by the previous Administration, to run its course. One way to start the reversal of this action would be to collaborate with, and give financial support to, the work (begun at the June 1976 World Employment Conference) of devising functional definitions of basic human needs and of internationally acceptable ways of meeting them. It is particularly important that the basic human needs approaches be acceptable to the developing countries. This effort would have the added benefit of partially fulfilling the mandate to the Secretaries of State and Treasury to consult widely about means of implementing basic needs and human rights strategies. If such collaboration were to begin, the United States should rejoin the ILO at the earliest opportunity—particularly since, at its June 1978 annual conference, the ILO responded positively to long-standing U.S. complaints, avoided getting bogged down in purely political questions, and accepted without objection the ILO Conference Committee report on Application of Conventions and Recommendations.

The question of how one applies human rights criteria to foreign policy is obviously very difficult and delicate, and the impact on the developing countries of the Administration's emphasis on human rights is as yet uncertain. The "new statecraft" discussed in Chapter I will have to concern itself most seriously and immediately with prudent judgments about how this morally good purpose is balanced against other foreign policy objectives. As in all human affairs, universal principles have to be applied in unique sets of circumstances, and the solution will never be perfect. The thrust of U.S. policy in recent years is clearly toward greater emphasis on human rights throughout the world, including the developing countries; how the application of this policy affects development in varying situations remains to be assessed.

The U.S. Congress and the North-South Dialogue

The growing attention of Congress to international affairs makes it an increasingly important participant in policy formulation, operational oversight, and the appropriations process in all the NIEO areas—not just official development assistance. Indeed, there is an increasing congressional involvement in all areas of international policy: trade, export promotion, agricultural prices and other agriculture-related issues, commodity agreements, regulation of U.S. private investment abroad, and the approval of treaties. This is due in considerable part to the fact that the lines between domestic policy and foreign policy are more and more blurred; policy is becoming global, with international and domestic emphases, at a time when the Executive Branch is less dominant with respect to the Congress and the latter itself, under new procedures, is becoming far more pluralistic. Congress is still elected from 435 districts and fifty states where the lines between domestic and foreign issues often are very distinct—to the detriment of the latter. A Congress that is more active in international affairs will have to learn to act more responsibly in this area and not simply respond to its most narrow-minded members' vision of the world and of the electorate.

In the past few years, Congress has emerged—with mixed results—as a major actor, if not a direct participant, in the North-South dialogue. Those of its members who take an active interest in the subject tend to have strongly held views about the whole range of North-South issues; these are often, but not always, helpful. As a result, Congress has been an ambivalent and inconsistent actor on this stage. Yet Congress has an educational function with regard to both its members and its constituents in broadening their perspective; to discharge that function will require a new kind of statesmanship on Capitol Hill.

Like the Administration, Congress, which has to provide the funds for all government programs, has organizational and policy problems—although they are of a different kind. With respect to foreign assistance, in particular, the very structure of the appropriations process works against strong and enthusiastic support. In recent years, the development proponents, with their broad world view, have gathered their majorities in the House and in the Senate in support of a funding authorization level for "foreign aid" close to what the Executive Branch requests. Every year, however, the very different sets of interests that dominate the appropriations (and now the budget) committees of both houses combine to provide less than what was authorized. In addition, individual members of Congress try to add priorities and restrictions on the expenditure of even that portion of the reduced total that goes through the multilateral channels. In the thirty years since the Marshall Plan, Congress has varied widely in its support of development assistance. A few years ago, the Senate even abolished foreign aid during one late-evening session (in part because of the way the program was being used in Vietnam) and later used some legislative sleight-of-hand to undo that deed.

In addition to the standard concerns about "ungrateful" foreign aid recipients who vote against the United States in the United Nations, seize American fishing vessels, violate the civil rights of their own citizens, or criticize wasteful U.S. energy practices, there are the usual number of (often small) foreign-aid failures or administrative errors that are portrayed as typical, as well as a growing concern that the United States is giving up control of the taxpayers' funds by turning them over to the multilateral banks. A new protectionist sentiment is also growing on Capitol Hill. Although it is still far from a majority view, it is aggravated by the growing domestic pressure to deal with equity problems at home before increasing outlays for the disadvantaged abroad. With inflation nudging 8 per cent and unemployment at 6 per cent (and prospects of reducing either of these rates significantly in the foreseeable future doubtful), classical economic concerns of members of Congress and powerful constituents are more likely than usual to lead to the cutting of expenditure sectors that appear unimportant or are not likely to provoke retaliation at the polls.

What is remarkable, however, is that despite these organizational, procedural, and other constraints, Congress frequently has been ahead of the Executive Branch in the area of development policy formulation, providing a major source of leadership, particularly in enunciating a development assistance philosophy. It was Congress that initiated the 1973 "new directions" changes in the foreign assistance program. It was Senator Hubert Humphrey's initiative that was responsible, in a major way, for the convening of the World Food Conference in 1974 and for the most positive aspects of U.S. participation in the Conference. It was Congress that made the $200 million available for IFAD in 1975 before it was requested by the Administration. It was the urging of leaders of both houses that contributed in a major way to the more cooperative U.S. attitude toward the South signaled by Secretary Kissinger's address to the Seventh Special Session of the U.N. General Assembly. It was Congress that initiated both the human rights concern and the basic human needs emphasis in the development assistance legislation. It was congressional insistence on separating development assistance from security-related programs in the authorization process that produced the unprecedentedly large majorities for foreign aid legislation in recent years. It was Senator Hubert Humphrey's initiative, later adopted in large part by the House International Relations Committee, that prompted both the current strengthening of the development assistance coordination process and the requirement that the President report to Congress on further steps toward improved and increased U.S. assistance to poor countries. It was Congress that insisted in 1975 that 75 per cent of the concessionally loaned food aid go to poor countries, rather than to those in which the United States has a strategic foreign-policy interest. Finally, it was Congress that, in its 1978 development assistance legislation, called on the President to explore the feasibility of achieving self-reliant growth and overcoming the worst aspects of poverty in all countries by the year 2000.

Congress also has expressed continuing interest in helping poor countries in several non-legislative ways. Following on its Right to Food Resolution of 1976, Congress passed a resolution in 1977 calling on the President to create a national commission on domestic and international hunger and malnutrition—which he has now done. The House also established a special committee on population, which paid a good deal of attention to, among other things, the relationship between development and population growth rates in the Third World.

These actions indicate that there is an underlying sentiment in Congress to support several aspects of the North-South dialogue, at least in the area of development assistance. This supportive view, however, is accompanied by considerable skepticism about whether U.S. foreign aid is getting to the poor majority, or indeed whether the current structure and administration of the program even enable assistance to get to the poor. This concern often leads Congress to enact difficult requirements (e.g., criteria to measure the commitment of a cooperating government to reaching its poor majority). Nevertheless, in light of this history of congressional interest in international development, it is not entirely reasonable for an Administration that has yet to establish a clear policy in this area to point to congressional reluctance or resistance as the major obstacle to progress. Even in the upcoming ninety-sixth Congress, which can be expected to offer strong resistance to moving forward in the North-South dialogue, there are many members who are waiting for, and would welcome, a clear signal from the Executive Branch. Representative government must, after all, govern as well as represent.

Conclusion

Overall, the dialogue between the North and the South has not progressed very far toward establishing broad agreement in international economic relations, even though it has moved toward accommodation in some limited areas. The North has not yet come forth either with a comprehensive statement of its own ideas for international economic reform or with an active negotiating approach to most Southern NIEO demands. At the same time, the cohesion of the Southern countries has been too brittle to permit compromise on their part.

Thus while the Northern countries cling to the familiar rather than launch—admittedly with some risk—into new waters, frustration grows in the South. Even the more even-handed, open-minded leaders and spokesmen of the South who are dedicated to a cooperative solution are increasingly unhappy about the lack of progress on the key economic issues—e.g., commodities, trade, debt, and aid. They are issuing stronger and stronger warnings. Commonwealth Secretary-General Shridath Ramphal said recently:

> All too often, the main purpose of the North has been the limited one of denying the validity or practicality of Southern prescriptions for change without offering anything in their place. Committed, it seems, to the status quo, the rich have indulged a dialogue they probably never expected to succeed and are now content with the stalemate their negative tactics ensured.[16]

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[16] Address at the annual meeting of the Board of Directors of the Overseas Development Council, New York City, October 19, 1978.

Of the choices still open to the North—confrontation with the South, cooptation of some of its more dynamic and influential members (e.g., Brazil, Iran, Saudi Arabia, and Mexico) into the existing system, or a cooperative multilateral approach—the last of the three is most promising for global equity and efficiency. Yet this approach probably is also the most difficult, since it asks the North to accept developing-country participation in decision-making processes that until recently have been the almost exclusive province of industrialized nations (and that surely will result in stronger pressure for better terms on aid, trade, debt, and other issues), and it asks the South to accept the present system as the starting point for negotiating reform.

All of these considerations--particularly the proven difficulty of developing an "umbrella" forum for discussing and negotiating the many interrelated issues—make the role of the Independent Commission on International Development Issues, known as the Brandt Commission, especially important. The Commission was constituted at the suggestion of World Bank President McNamara in early 1976 and is headed by the former Chancellor of the Federal Republic of Germany, Willy Brandt.[57] The Brandt Commission has a broad mandate to examine a set of problems similar to those that prompted the establishment of the Pearson Commission a decade ago and to explore involving the centrally planned economies in development assistance. This mandate makes it a potential vehicle for contributing to a coherent address of the problems affecting North-South relations and for helping to move beyond the current stalemate. The Brandt Commission is expected to complete its report on the future of North-South cooperation to the year 2000 by the late summer or early fall of 1979, in time to have an impact on the planning and negotiation of an international development strategy for the U.N. Third Development Decade.

If the North-South dialogue is to move beyond its current stalemate, the changed perceptions of mutual gain outlined in Chapter 2 are essential. This, however, is only the first step. Beyond it, as noted in the overview essay, objectives for changes in the world's economic systems must be identified and priorities for action must be established. It is not enough to assume that, because many changes have taken place in relationships between countries in the decades since World War II (Taiwan and South Korea, after all, were once considered "basket cases" with poor prospects for development), such changes will continue to take place.

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[57] The members of the Brandt Commission are: Willy Brandt, former Chancellor, Federal Republic of Germany (Chairman); Khatijah Ahmad, Malaysia; Abdlatif Y. Al-Hamad, Director-General of the Kuwait Fund for Arab Economic Development; Antoine Kipsa Dakouré, Adviser to the President, Upper Volta; Katharine Graham, publisher, *Washington Post*, United States; Edward Heath, former Prime Minister, United Kingdom; Amir H. Jamal, Minister of Communications and Transport, Tanzania; Lakshmi Kant Jha, Governor, Jammu and Kashmir, India; Adam Malik, President of the National Assembly, Indonesia; Eduardo Frei Montalva, former President, Chile; Rodrigo Botero Montoya, former Minister of Finance, Colombia, editor and publisher; Haruki Mori, Board Member, Corporation for International Co-Operation, Japan; Joe Morris, President of the Canadian Labor Congress and Chairman of the Governing Board of the International Labour Organisation; Olof Palme, former Prime Minister, Sweden; Peter G. Peterson, Chairman of the Board, Lehman Brothers; Edgard Pisani, France; Shridath S. Ramphal, Secretary-General of the Commonwealth, Guyana; and Layachi Yaker, Vice President of the National Popular Assembly, Algeria.

Nor can it be assumed that only "correctives" to maintain the general post-World War II direction of the international economy are needed. Those who hold this view believe that some developing countries gradually will evolve to a level where they are "eligible" for membership in the "First World" of industrialized countries. Undeniably, most of what is done domestically to meet the basic needs of their people—with the resources available—lies within the choice and power of the developing countries themselves. But the North, too, should be looking for ways to advance this process, if only because the growth and development of the South now increasingly appear to contribute importantly to the North's own growth and prosperity. In effect, *their* development—meeting their basic human needs in a self-reliant mode—is very much in *our* interest. This conclusion provides material support for doing what is morally right.

Thus one of the most important items on the 1979 agenda is to get the North-South dialogue revived. To generate the political will in both the North and the South for such a revival is crucial if development progress is to be made. The prospects are not promising right now. Neither the industrialized countries, including the United States, nor the Group of 77 has yet displayed the flexibility or vision necessary to move toward new kinds of economic arrangements.

While the *performance* of the United States on North-South issues has fallen short of the needs and opportunities of two years ago, the U.S. *attitude* nevertheless reflects change for the better and affords hope that the exploration of new alternatives will go forward. The United States has done well on some big international problems that affect the developing world, like the Panama Canal and the Middle East, and it has begun to reach out to U.S. constituencies that support development. Now is the time for the development agenda of the Carter Administration to come into its own, and presidential leadership on this set of issues is of central importance.

A PROGRAM FOR AMERICA: FREEDOM AND FOREIGN POLICY*

by William R. Kintner

In his inaugural address, President Carter stated: "Our nation can be strong abroad only if it is strong at home, and we know that the best way to enhance freedom in other lands is to demonstrate here that our democratic system is worthy of emulation." Six months earlier — in his acceptance speech at the Democratic National Convention, on July 15, 1976 — Carter had called for "a more stable and more just world order." This is an admirable goal. To be sure, we are not now and never were in a position to impose our solutions on the world at large. Nevertheless, what we do or fail to do will still influence stability and justice in the world of the future. Moreover, in many specific cases we will find that our notions of stability and justice may be incompatible.

Two world wars have already been fought by the United States to preserve the American concept of liberty. Yet American foreign policy since the end of the Second World War has been constantly criticized for its negative direction: it is easy to know what we oppose but impossible to know what we advocate. In part, this charge is justified. We all know that the United States opposes "selective" detente, higher oil prices, nuclear proliferation, the use of force to settle disputes in Africa and the Middle East, Castro's export of revolution in the Caribbean, and Soviet restrictions against Jewish emigration. In recent years, moreover, perhaps because of the Vietnam tribulation and domestic dissatisfaction, we have tended to downplay our long-cherished vision of freedom. We have focused primarily on what we are against. The negative list is a long one, and this negativism must be counterbalanced by a positive vision worthy of world emulation. Lacking such a vision, we appear to be merely a status quo power — willing to fight for

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what we have or want, but opposed to the legitimate demands of others.

Our position has been confused, also, because for strategic reasons we have sometimes supported authoritarian regimes of the Right, such as Franco's, as well as some of the Left, such as Tito's. In today's perverse world, however, support of repressive leftist authoritarian regimes is offensive. Rightist regimes that suppress human rights, such as South Korea's, are pilloried, whereas greater repression and even mass murder in one-party collectivist countries such as Cambodia or Vietnam are rarely criticized.

In a world where the democratic approach toward ensuring individual choice appears to be declining, the United States should promote freedom and diversity. The comity of nations is still divided between those that see individual liberty and civil rights as the key to a more humane society and those that deny these rights in the name of some higher, preordained social organization. Paradoxically, such Marxist-Leninist states as the Soviet Union feel compelled to declare themselves "People's Democracies," even though the people are not able to change the leading role of the Communist Party or the control of the state.

The history of the United States' involvement in the world has been one of promoting freedom and independence, both within and between nations. The dual form of autonomy, for the nation and the individual, has not been easily pursued, and the United States has been manifestly more successful in promoting the independence of nations, often to the detriment of the American national interest narrowly defined. In the long run, however, this two-pronged quest has proven its worth, and is deserving of continued support. The emerging dilemma for American foreign policy is the difficulty of implementing the abstract principles of individual liberty around the world, particularly at a time when it would be far easier to let those principles be subordinated to power calculations.

In a quest for policy resting on principle we must return to our origins — the transcendent claim of the Declaration of Independence that legitimate government must rest upon the consent of the governed. With Madison, we must commend the essence of our kind of government to "the esteem and adoption of mankind" (Federalist Paper 10). The goal of human freedom can offer universal appeal for a world locked in conflict, a world in which most people live under varying degrees of despotism. In short, we need to reassert freedom as well as peace with justice as the guiding principles of our foreign policy. Our task will be to relate practical programs for the immensely varied countries of the world to the underlying philosophy of democratic freedom. In doing so, we shall confront serious obstacles in many countries around the globe — some arising from their domestic difficulties, others from American ambivalence toward international relations. The most important obstacles appear to be the following:

(1) The Soviet Union, the most powerful opponent of human rights and political freedom as we conceive them, is also promoting a new world order, albeit one largely made in Moscow and imposed by the political influence issuing from Soviet military power, rather than one created by consent of individual countries and peoples.

(2) Soviet aspirations have been reinforced by the coming to power in many countries of leaders who reject democratic procedures. Politically, the Soviet Union has benefited from the widespread anti-Western and anti-American bias that has come to characterize much of the Third World, particularly in Africa and Latin America. (The eighty-six nations attending the 1976 nonalignment conference at Colombo, Sri Lanka, passed thirty-six resolutions, almost all critical of the United States.)

(3) In the past, the ideals of the American Revolution inspired the extension of freedom and democracy in Europe as well as the colonial liberation movement throughout the world. But in the present era the Western democratic model has frequently failed to meet the social and economic needs of the developing nations. The American concept of individual liberty and free-market economy seems to be out of reach for most Third World nations. To them, some form of authoritarian polity and planned economy seems more relevant.

(4) The perennial theme among Western intellectuals — the decline of the West — has been accompanied by fear for the survival of individual freedom and democracy itself. The proliferation of technology, increased governmental intervention in many spheres of social activity, and the spread of egalitarian ideologies are undoubtedly modifying the scope and nature of liberty. Certainly, if we examine the democratic prospect from an international perspective, there is considerable cause for worry. According to one survey of political institutions, "Human rights rooted in a legal order of free institutions hardly exist at present for almost four-fifths of the people of the world. The most painful fact is the

growing number of Marxist regimes, now more than two dozen strong."[1]

(5) Democracies in general have a well-known record of apathy with respect to foreign relations. Once roused to crusading pitch, however, public opinion is difficult to control. The politics of democracy, the advocacy of freedom abroad, and the pragmatic requirements of foreign policy have proved to be a volatile combination for the United States. The Wilson experiment, the isolationist strain, and such misfortunes as McCarthyism and the Vietnam war have all been imbalances that eventually disfigured and discredited American foreign policy.[2]

The First Step: Confidence and Clarity of Vision

The frontiers of freedom contracted and expanded during the Nazi challenge and there is no reason why they cannot advance once again. The idea of freedom has universal appeal; no one enjoys arbitrary control over his life by another. But unless those societies that enjoy freedom are confident of its value, and are willing to defend it, no one else will do so. The first step is therefore a renewal of confidence, particularly in the United States.

Despite redoubtable problems, the United States still offers the broadest scope for individual liberty of any nation in the world. And our example should not be lightly dismissed. It is the view of one French observer that "the revolution of the twentieth century will take place in the United States. It is only there that it can happen. And it has already begun. Whether or not that revolution spreads to the rest of the world depends on whether or not it succeeds first in America."[3]

The essence of the American Revolution is freedom via an effective democratic process. Democratic concepts can revitalize our diplomacy only if we first understand that "what is necessary . . . is one thing and one thing only — that the issue of democracy be made precise and clear."[4]

James Bryce described the essence of democracy: "Rule belongs to the majority, as no other method has been found for determining peaceably and legally what is to be deemed the will of a community which is not unanimous."[5]

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[1] Theodore A. Sumberg, "An 'Aggressive' Détente," *Freedom at Issue*, January-February 1977, p. 29.

[2] Gabriel Almond, *The American People and Foreign Policy* (New York: Praeger, 1960) provides a classic statement of this problem.

[3] Jean-François Revel, *Without Marx or Jesus: The New American Revolution Has Begun* (New York: Doubleday, 1970), p. 1.

[4] Archibald MacLeish, *The American Cause* (New York: Duell, Sloan and Pearce, 1941), p. 28.

Governments chosen through the democratic process can take many forms, and the form of government that best fits the needs of one nation may not be best for another. What is desirable for a people at one stage of their development may not be appropriate at another.

Communist leaders talk of "positive rights" — for example, the rights to food, education, health care and recreation — and argue that these should have priority over majority rule. Paradoxically, however, countries that place political freedom first among their priorities frequently provide more "positive rights" and economic benefits than do those that postulate egalitarianism as a precondition of political freedom.

What we stand for as a nation is the maximum political freedom possible, obtained through a democratic process which periodically selects and changes government leadership, and which holds that leadership accountable to the law. Such political freedom allows every person to develop in accordance with the dictates of his own conscience — within the framework of law. These political concepts embedded in our basic political documents may have universal appeal, but can they also provide conceptual rules for the conduct of our diplomacy?

Implications for U.S. Foreign Policy

It has been said that "Americans must learn the inescapable need to relate our moral aims — which of necessity are stated in universal terms — to the imperative choices imposed upon us by competing goals and finite resources."[6] To relate our moral principles to our concept of the national interest requires an explicit statement of what we seek in the world — a statement that the American people can agree on.

On the one hand, we are told that the goal of U.S. policy is to maintain maximum U.S. influence in every country in order to disseminate stability and prosperity. From that perspective, we naturally focus on Europe and Northeast Asia. On the other hand, we are advised to preserve the territorial nation as it currently exists — that anything beyond this would be "overextension." The Western

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[5] James Bryce, *Modern Democracies* (New York: Macmillan, 1921) vol. 1, p. 20.

[6] Henry A. Kissinger, "America and the World: Principle and Pragmatism," *Time*, December 27, 1976, p. 43.

Hemisphere is frequently considered by the United States as a natural concern of this minimal area of national interest.

In a world of interdependence, can the United States express its national interests solely in geographic terms? In Angola we experienced our inability to cope with adverse developments in a continent we had placed low on our scale of national interests. Even if we do not intervene in southern Africa, for example, can we escape the consequences of what might happen there? Throughout the remainder of this century, the United States will likely remain a global power with geopolitical interests around the world. Which of these interests it will choose to protect, and by what means, is the question.

Purely geopolitical security frames of reference need to be broadened by associating them with a moral dimension. The almost one hundred fifty nations comprising the international system differ greatly in size, population, power, influence and in the degree of freedom their citizens enjoy. By tailoring our policies so that the defense of freedom and the safeguarding of security interests reinforce each other we may be able to reconcile our moral aspirations with the tough realities of the present international disorder. There are two freedoms to consider: one within nations and the other between them. The United States has always championed the latter — the self-determination of peoples. It has defended the right of a nation to exist despite the form of its government. For this reason we support the Republic of Korea even though we disapprove of some of President Park's internal policies.

It was easier for U.S. public officials to support the independence of Thailand against externally supported insurgency when Thailand was aspiring to be a constitutional democracy than since the return of Thailand to military rule. Yet an independent Thailand can retain the option of a restoration of democracy, whereas the triumph of an insurgency supported by Hanoi would close that option. If the United States seeks to establish diplomatic ties with Vietnam, it should first insist that Hanoi terminate support for the insurgency in Northeast Thailand. Such a policy would help to maintain Thailand's independence and preserve the option of developing greater internal freedom. It would also help to safeguard the other noncommunist countries in Southeast Asia. The independence of these countries would be in the security interests of Japan, Australia and the United States. This example suggests that the United States pursue a policy with greater weight given to our moral purposes, both in focus and in substance.

How to apply the basic principles of a foreign policy based on freedom will not be easy. For example, the question of nuclear weapons control and the policy of their first use is a thorny one. The practical application of our rejection of apartheid to our relations with South Africa is another. The moral implications of U.S. weapons sales to foreign countries need to be examined. The circumstances under which the United States should contemplate the use of force in support of its foreign policy merits rethinking. Expedient policies are far easier to devise than those based on the support of freedom. In view of the revulsion against nuclear war a policy of "no first use" of nuclear weapons seems sound and logical, yet such a policy might jeopardize the defense of freedom. We need to ask if it is moralistic to talk about majority rule in Africa when most countries there are run by military dictators or one-party rulers. Because we oppose apartheid, should we break off diplomatic relations with South Africa? How we might deal with the issues on the global agenda will not be easily resolved. Obviously, the task of defending and expanding the sphere of freedom will differ among our democratic allies, in our relations with the countries of the Third World and toward our ideological adversaries.

The First Circle

The closest circle of our relationship should be with fellow democracies, where most basic freedom exists. Though in the minority, these peoples possess far more power and influence than their numbers might suggest. Most free people live in the most economically advanced countries of the world. Many belong to the "Trilateral" group, many to the OECD; most are located in Western Europe, but the reach is to Israel, Japan, the South Pacific (Australia and New Zealand) and the Western Hemisphere (Canada, the United States, Costa Rica and Mexico, for example). The central task of U.S. diplomacy should be to generate the most effective diplomatic, economic and security cooperation among these democratic nations — the first tier among the world's states. Among other issues, these nations need common policies on energy, North-South relations, terrorism, the international monetary system and human rights.

Claimants for a New Order

Perhaps the most dismaying development in the past few years has to do with what some have called the "hostile majority."

While U.S. relations with allies and select adversaries have improved, the rest of mankind — the so-called Third World — seems to have exploded with hostility toward the United States' institutions, political philosophy and economic system. The demand for a "new international economic order," rigged according to state-controlled price formulas, has been accompanied by a crescendo of anti-Western campaigns, most notably at the UN.

Some observers, such as former Ambassador Daniel P. Moynihan, assigned part of the problem to insufficient advocacy. The United States, he argued, should undertake vigorous opposition to all ideas hostile to freedom and democracy. Moynihan's analysis drew upon his conviction, based on previous experience as ambassador to India, that a misguided Fabian socialism had retarded the development process; this in turn led to a rejection of parliamentary democracy, rather than to change in economic programs.[7]

Zbigniew Brzezinski, however, has cautioned against making the contest a simple one of liberal democracy versus despotism, lest U.S.-Third World relations be aggravated further:

> In that context, for Americans to inject into American external relations the ideological claim that the contemporary world struggle is between liberal democracy and various forms of despotic statism is to provide a counterproductive economic reinforcement to the already noted political-philosophical tendencies toward America's global isolation.[8]

If we are to unite vigorous advocacy of freedom and pragmatic diplomacy toward the less developed countries, we should not allow ourselves to become bogged down in economic arguments, on the one hand, or assume that the rest of the world is hostile to our democracy, on the other. In the words of Sidney Hook:

> The issue is not between capitalism and socialism. The issue is whether human beings are to be free to choose for themselves the economic system under which they wish to live or whether this is to be imposed upon them forcibly by a small group of self-selected rulers responsible to no one but themselves.[9]

Eventually we may persuade the troubled peoples of the Third World that their search for well-being may be aided more by freedom than by coercion. Their leaders face grave economic and political difficulties. Incapable of leading, they can only rule by fiat. The basic problem, of course, is how the developing countries can have their people participate in the governing process in a way that stays clear of political chaos or slower progress in meeting their economic needs. For many countries in Asia and Africa, Western-style parliamentary democracy is not the answer. The record for this form of government has been poor in the arc of Asia stretching from Korea to Iran as well as in most of Africa and Latin America. There are no easy answers as to what type of democratic system works best, but there is a pressing need in all these countries to find adequate means for popular political participation in the not-too-distant future. A statement issued by the opposition Janata Party in India made this point effectively:

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[7] See Daniel P. Moynihan, "The United States in Opposition," *Commentary*, March 1975.

[8] Zbigniew Brzezinski, "America in a Hostile World," *Foreign Policy*, Summer 1976, p. 76.

[9] "New America," *Encounter*, January 1977, p. 50.

> History is replete with instances where those who conspire against the rights of the people attempt to undermine freedom by portraying it as a luxury. They conceal the fact that fundamental freedoms are weapons that the poor need to fight tyranny. Bread cannot be juxtaposed against liberty. The two are inseparable.[10]

The Third World, with all its diversity, is the most active area of competition between the industrialized democracies and the "Marxist-Leninist" states. We should be responsive to the nations of the Third World, primarily in political and economic ways, if they ask our assistance in dealing with their problems. When a genuine democracy is endangered by an outside power we should consider intervention.

Nor should we be so naive as to ignore the internal political realities of besieged allies. The human rights standard is often used to mask attacks on anticommunist allies, such as South Korea, Taiwan, Iran, Greece (under the colonels), Brazil and post-Allende Chile: "Their citizens do not enjoy the rights we enjoy. Equally true, they have far more freedom than [do] their Communist adversaries."[11] We are urged to tell countries with which we may have some linkage (for instance, South Korea or the Philippines) to mend their domestic ways if they wish our continued security support. This would run counter to one of the characteristics of the nation-state system — that each nation is sovereign within its own domain. For the United States to insist that it has the right to force its allies to toe the line would obviously be to interfere in their internal affairs. This does not imply, however, that we should condone violations of human rights anywhere.

An extraordinary feature of U.S.-Third World relations is that while many Third World leaders chide the United States, most of the citizens they govern envy us. The United States is still the mecca of hope and freedom for millions of people throughout the world. The vast flow of immigrants to our country, legal and illegal, attests to the attraction of American life. Moreover, the United States is the educational center for students from all over the world.[18] We face an envious world, not a hostile one. As President Carter expressed it in his first address to the nation, "Peoples more numerous and more politically aware are craving and now demanding their place in the sun — not just for the benefit of their own physical condition, but for basic human rights." We should encourage them to adopt a democratic system compatible with their own cultures, and should respond with positive incentives to any steps they may take toward democracy. We should recognize that each nation should choose its own government and that some form of circumscribed democracy may be appropriate at a particular stage of development. In any circumscribed democracy, however, what must remain is the diversity of opinion and institutions that will provide the basis for the eventual flowering of freedom and democratic rights. Perfect tyranny, too easily created, produces a barren earth in which freedoms will never grow.

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[10] Quoted in *New York Times*, February 11, 1977.

[11] Ernest W. Lefever, "The Rights Standard," *New York Times*, January 25, 1977.

Dealing with Adversaries

The need for cooperation with adversaries on many global issues should be obvious. The spread of modern technology is generating problems of resource scarcity and environmental pollution for all nations, regardless of ideology. Instead of the progress that seemed so sure in the first Industrial Revolution, the major industrial societies seem to be facing diminishing resources, impure water and foul air, toxic effects from chemical fertilizers and insecticides, the possibility of major famines, dwindling ocean fisheries, chronic unemployment, persistent inflation, unstable currencies, sprawling urban problems, and a widening "rich nation-poor nation" gap. These symptoms of a fundamental dysfunction in the world system require *systemic* change if they are to be managed satisfactorily. The extent of that change is not yet clear, but one element has emerged. Basically, all states — but especially the more powerful ones — must recognize that none of the important problems confronting mankind can be solved unilaterally. Neither can these problems be solved on the basis of a divisive ideological doctrine that ignores human rights.

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[18] "It is noteworthy that despite much global criticism of U.S. policies, the attraction of the United States for foreign students has continued to grow." (Brzezinski, p. 91.)

Instead of an almost undifferentiated "containment" policy against all Marxist-Leninist regimes, American foreign policy perceives the great variety that exists among communist parties — in ideological commitment, in their ties to Moscow, and in the severity of their internal coercion when in power. The Soviet Union is by far the most powerful of the Marxist-Leninist states, but is less developed economically than are some countries in Eastern Europe. The People's Republic of China, on the other hand, is notable for what Edward Luttwak called "its unique, almost pure totalitarianism." Clearly, the variety in Marxist totalitarianism now requires a range of relationships characterized by varying degrees of cooperation or antagonism, rather than an inflexible containment policy. In short, we should use the fragmentation of Marxism-Leninism into nationalistic factions as a means of eliminating ideological commitment to it as a global moral system.

At the same time, we should understand that the most significant obstacle to the achievement of our goals remains the Soviet Union. If Moscow genuinely wishes to enter into the kind of long-term international cooperation that mankind so desperately needs, it will have to change its policy to something far more benign than the present version of "peaceful coexistence." Among other things, this would require some reordering of priorities away from the steady increase in military spending that has characterized Soviet budget allocations for the past fifteen years. Because of the closed nature of the system, Soviet intentions can be inferred only from Soviet behavior. Many Western statesmen find that behavior menacing in the strategic arena, opportunistic in the Third World, hegemonic in Eastern Europe, and divisive with respect to relations between the United States and Western Europe. It may be argued that these are misconceptions, but to the extent that they are, this is due in no small part to the contradictions between Moscow's declared peaceful intentions and the pace of Soviet arms acquisitions.

Struggle and competition between the United States and the Soviet Union need not result in war or in an irreversible shift in the global balance of power to Moscow's advantage. As the late President John F. Kennedy remarked in his speech at American University on June 19, 1963:

> World peace, like community peace, does not require that each man love his neighbor: it requires only that they live together in mutual tolerance, submitting their disputes to a just and peaceful settlement.

> And history teaches us that enmities between nations, as between individuals, do not last forever.[13]

When dealing with our powerful adversary, we should recognize that the minimal operational meaning of detente for the Soviets is a presumed and natural mutual desire to avoid nuclear war. We should also recognize that we and the Soviets remain competitors, politically, militarily and ideologically. The communists have never intended that detente should end the ideological struggle. As Brezhnev put it:

> Détente and peaceful coexistence refer to interstate relations. This means mainly that disputes and conflicts between countries are not to be settled by war, by the use or threat of force. The détente does not in the slightest abolish, and cannot abolish or alter, the laws of the class struggle. . . . We make no secret of the fact that we see détente as the way to create more favorable conditions for peaceful Socialist and Communist construction.[14]

Brezhnev has also asserted that "the cause of freedom and progress is unconquerable."[15] Obviously his idea of freedom is not ours.

Let the United States advance on the imperative of its own definition of freedom as linked to democracy. Our support of freedom for the individual need not bring back the acrimony of the Cold War any more than the Soviet denial of freedom will, by itself, do so. Each side knows the other's ideological position. Each can expose what it believes to be the fundamental errors of the other without demanding an immediate overthrow or elimination of the opposing system. Each should tolerate, even seek, a peaceful competition of systems. Eventually, the individual citizens of the world's nations may be able to choose the degree of freedom or governmental authority they want. We should be confident that competition under such rules will ultimately favor the Western democracies over the "Marxist-Leninist" regimes.

What Can Be Done?

President Carter, in his inaugural address, proclaimed a foreign policy dedicated to widening the frontiers of freedom: "The passion for freedom is on the rise. Tapping this new spirit, there can be no nobler nor more ambitious task for America to undertake on this day of a new beginning than to help shape a just and peace-

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[13] *Department of State Bulletin*, July 1, 1963, p. 3.

[14] Leonid I. Brezhnev, *Report to the Twenty-fifth Congress of the Communist Party of the Soviet Union*, February 24, 1976.

[15] *Ibid.*

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[13] *Department of State Bulletin*, July 1, 1963, p. 3.

[14] Leonid I. Brezhnev, *Report to the Twenty-fifth Congress of the Communist Party of the Soviet Union*, February 24, 1976.

[15] *Ibid.*

The global revolution that has taken place in all forms of communications offers an ideal instrument with which to promote the expansion of freedom. The possibility of reaching the minds of people everywhere via the electronic media either exists or can be developed. The communist regimes have long used their monopoly of communications and information to indoctrinate their populations. They have sought to insulate the populations they control from the influence of alien ideas. Many Third World countries are attempting to follow the Soviet model, and efforts are under way in many of these nations to ensure government control of the flow of news within and between countries. Vidya Charan Shukla, the Indian information minister, addressing the New Delhi nonaligned conference, gave this rationale:

> The theme of "free" flow of information, which was chanted in a chorus, was aimed to enable all countries in name but only the powerful countries in reality, to pump their information into all regions of the world without let or hindrance. . . . In fact, the idea of a "free" flow of information fits insidiously into the package of other kinds of "freedom" still championed by the adherents of 19th-century liberalism.[18]

Symbolic of the struggle between free and authoritarian societies will be whether a pluralistic global communications system, involving media, entertainment, cultural exchanges and international travel, can be sustained.

As the acknowledged leader of the industrialized democratic societies, the United States has a responsibility to assure freedom of information to the countries of the Third World. America should take the lead to block an effort, masterminded by the Soviet Union and some Third World countries, to obstruct the flow of global information via UNESCO (the United Nations Educational, Scientific and Cultural Organization). UNESCO was created as a nonpolitical organization dedicated to furthering international cooperation in its areas of interest. But a concerted effort has been made by the Soviet Union and its Third World associates to transform it into a political agency, a vehicle for restricting the free flow of information.

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[18] Quoted in Leonard R. Sussman, "A Fateful Year for the News Media," *Freedom at Issue*, January-February 1977, p. 4.

It is time for the United States to join the battle against suppressing the flow of news in the crucial UNESCO forum. Imbalances in the flow of information between Third World countries and the industrialized world do exist, but these should not be corrected by applying further controls. Open communication of ideas is the lifeblood of freedom.

Another initiative needs to be taken in the context of East-West relations. The nature of man and the nature of society are at the root of the conflict between the Western democracies and the Soviet Union. In 1950, President Truman approved NSC 68, the United States' first major philosophical and strategic analysis of continuing conflict between Soviet totalitarianism and the free democracies. In discussing the two systems, the document stated:

> The idea of freedom, moreover, is peculiarly and intolerably subversive of the idea of slavery. But the converse is not true. The implacable purpose of the slave state to eliminate the challenge of freedom has placed the two great powers at opposite poles. It is this fact which gives the present polarization of power the quality of crisis.[17]

An underlying assumption of NSC 68 — which has influenced American policy ever since its publication — is that the conflict between free and totalitarian societies will continue until the characteristics of a free society begin to emerge within the Soviet system. (Conversely, the conflict could end if free societies lacked the will or the power to defend their freedom.) The denouement may not come for many more years. A beneficent outcome will never arrive unless the Western democracies, particularly the United States, have the will and stamina to protect themselves while continuing to proclaim liberty throughout the world. Through spreading the revelations of the Alexander Solzhenitsyns and Vladimir Bukofskys concerning life in the Soviet police-state, we can bring home to the American people that the freedom they too often take for granted is priceless and easily lost. This in turn will induce them to support what needs to be done to assure protection for the existing frontiers of freedom. In fact, one of the harmful by-products of President Nixon's premature declaration of "a generation of peace" some years ago was the false sense of euphoria it evoked, which made it more difficult to maintain the redoubts necessary to secure freedom's frontiers.

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[17] *A Report to the National Security Council by the Executive Secretary: On U.S. Objectives and Programs for National Security*, April 14, 1950. (Declassified February 27, 1975, by Henry A. Kissinger.)

Open moral support of freedom in the USSR and elsewhere will also help us in our diplomatic dealings with the array of dictatorial regimes now flourishing in the Third World. Since 1960, the increase of Marxist-Leninist governments has been phenomenal.[18] Many of these governments have come into existence through active Soviet support. This increase, together with the concomitant growth of Soviet power, has made it appear that totalitarian tyranny and not freedom is the wave of the future. By exposing the human implications of totalitarian tyranny at the center of the emerging Soviet international system, we can raise doubts about the validity of the Marxist-Leninist program for fulfilling human needs and aspirations.

At the July 1977 meeting in Belgrade, where "progress" in implementing the 1975 Helsinki accords is to be reviewed, the United States will have an excellent opportunity to speak up for human rights in the framework of Basket 3, which calls for greater freedom of travel and of contact and exchange between East and West. The thirty-five signatories to the Helsinki accords, including Brezhnev, pledged their governments "to assist in the improvement of distribution within their territory of newspapers, publications, periodicals and non-periodicals originating from other participant countries." Nonetheless, evidence is mounting that the Soviets and their East European client-states clamped down on individual freedom more after the Helsinki meeting than before.

The United States has faithfully lived up to the 1948 UN Human Rights Declaration, which eloquently asserted the inviolable conditions of humane societies:

> All human beings are born free and equal in dignity and rights. . . . Everyone has the right to life, liberty and security of person. . . . All are equal before the law and are entitled without any discrimination to equal protection of the law. . . . No one shall be subjected to arbitrary interference with his privacy, home or correspondence, nor to attacks upon his honour and reputation. Everyone has the right to the protection of the law against such interference or attacks.[19]

We thus have the credentials to take the lead in assembling and auditing a public record of the state of human rights and the free flow of information in the thirty-five nations that signed the Helsinki accords. The audit is likely to disclose Soviet obstructions that should be eased. To start with, some Soviet concessions having to do with freedom of information might be exacted without jeopardizing SALT II. If Western newspapers and magazines can be bought rather freely in Budapest, why not in Moscow?

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[18] W. Scott Thompson, "Toward a Communist International System," ORBIS, Winter 1977.

[19] Quoted in Donald Wilhelm, Jr., *The West Can Win: A Study in Science and World Power* (New York: Praeger, 1966), pp. 149-150.

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It may take a long time for the seeds of freedom to take root in Soviet soil; we must learn patience and avoid provocation. We should press the Soviet Union for movement toward a wider meaning of detente that includes respect for human rights. One way to do this is to urge its leaders to observe all the conditions of the Helsinki accords, including Basket 3. Above all, we should maintain a prudent security posture — one that will preclude the Soviets from exploiting superior armed strength for political gains harmful to freedom's nurture and growth. The preservation of an adequate military shield for the protection of free people should be the overriding moral imperative of the United States.

Since President Kennedy pledged an overwhelming commitment of U.S. resources to the defense of freedom everywhere, our foreign policy has alternated between morality and expediency. The crusading spirit which has sometimes characterized our policy probably contributed to our deep involvement in Vietnam. Regardless of the merits of that intervention, the conduct of the conflict there was strategically unwise, and the mode of our withdrawal was morally flawed. As former Defense Secretary Melvin Laird has written from intimate knowledge:

> North Vietnam became a party to guaranteeing peace in South Vietnam, with the clear understanding that there was and would continue to be a separate South Vietnam. After these accords were signed, however, the United States did not take appropriate action . . . to stem violations by both North Vietnam and the Provisional Government, equipped by the U.S.S.R. and China. The strenuous efforts necessary to make the two Communist giants agree to restrict weapon flow were never undertaken. . . . even if our whole involvement with ground forces in Vietnam was questionable from the first, America's convenient neglect of its solemn pledge to guarantee the security of South Vietnam cannot be excused.[30]

The abandonment of solemn pledges for the sake of expediency has characterized many of our actions and helped shatter the consensus that sustained our foreign policy from the Marshall Plan until the Tet offensive. If our foreign policy is to win the consent and support of the American people, it must be consistent with our basic values.

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[30] Melvin Laird, "America's Principled Role in World Affairs: A Realistic Policy of Peace and Freedom," in Robert J. Pranger, ed., *Détente and Defense* (Washington: American Enterprise Institute for Public Policy Research, 1976), p. 107.

The American Task

After years of "the best and the brightest," followed by the Nixon-Kissinger realpolitik attempt to lead us across "the threshold of a new era of peace," the United States is once again engaged in a reappraisal of what the fundamental thrust of its foreign policy should be. The central issue is not whether we will seek to play a major role in world affairs. There is no way we can escape from the responsibilities that flow from our power. The real issue is whether we will help shape the future world order to make it more compatible with freedom. Hence, the preservation of existing free societies should be the basic aim of American foreign policy. The United States should simultaneously maintain and disseminate a vision of freedom for all who seek it. When opportunities arise, our policy should be based on the promotion of freedom. An American foreign policy inspired once again with the advocacy of freedom will be less tempted to find expedient, short-term solutions to difficult problems.

It is our task to hold up the standard of a free society at home and call attention to restrictions on liberty abroad. The U.S. government, however, is ill equipped to monitor the human rights situation in various countries or to disseminate information concerning flagrant violations. The various operational arms set up by the government in the 1950s, such as the Psychological Strategy Board and the subsequent Operations Coordinating Board, were dismantled by President Kennedy and never replaced. We have never had a focal point in the government for monitoring the U.S.-Soviet cultural exchange program. Likewise, the executive branch has failed to create an agency within the State Department or the White House to keep track of performance regarding Basket 3, and it gave little assistance to a commission on compliance set up by Congress to monitor how the Eastern bloc countries perform on these matters.

In addition to the initiatives on free communication and vigorous advocacy of Basket 3 at the Helsinki review conference, previously mentioned, the government is in dire need of some reorganization to focus on the issue of human rights. The persistence of the U.S. government in keeping this matter before the forum of world public opinion is essential if it is to command the respect of the American people and if it is to sustain those who cry for freedom throughout the world. The Carter administration has taken some admirable first steps with regard to the human rights issue. It has placed the spotlight of public opinion on Soviet violations of human rights and has been strongly rebuked by Moscow for doing so.

Freedom cannot be imposed on any country from without; it has to be won from within. This is especially true of the Soviet Union. There is little the United States can do directly to support the Soviet dissidents fighting for freedom against the immense power of the Soviet state. Yet the very fact that we care about their struggle for freedom brings light to their struggle and discomfort to the Soviet rulers.

Freedom as the touchstone of our diplomacy will have to be applied differently toward the first circle of our democratic allies than to the many envious, if not hostile, members of the Third World. Our policies toward our adversaries should be cooperative when necessary, but in no case should we shrink from ideological competition with totalitarian systems. The question is not, as Lenin asked of history, Who is stronger? Rather, we should ask, Which is best?

President Carter has called for a renewal of the "moral" dimension of American relations abroad. On the way to this goal, we will encounter the old difficulties between moral ideals and the demands of pragmatic policy. This dilemma will be resolved by the usual weighing of greater against lesser evil which comprises the unpleasant business of diplomacy and power. But perhaps the most important task on this road will be to fix a "weight" to the moral element in our cost-benefit analysis of foreign policy decisions. This weight will shape priorities, and our allies should be the beneficiaries. As Lord Palmerston declared over a century ago: "Constitutional states I consider to be the natural allies of this country; and whoever may be in office conducting the affairs of Great Britain, I am persuaded that no English ministry will perform its duty if it be inattentive to the interests of such states."[21] The United States should now apply the same principle to the free, democratic societies of the world community.

In brief, there are many things the United States can do to expand the frontiers of freedom without rocking the global boat, reviving the Cold War, or accelerating the arms race. It is time to begin.

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[21] Quoted in Jasper Ridley, *Lord Palmerston* (London: Panther Books, 1972), p. 216.

Marshall D. Shulman

ON LEARNING TO LIVE WITH AUTHORITARIAN REGIMES*

Among the problems experienced by democratic societies in managing their foreign affairs, none have been more beset with dilemmas both moral and practical, nor accompanied by more dispute and self-doubt concerning fundamental aspects of the democratic faith, than those arising as a consequence of relations with authoritarian regimes.

In the aftermath of recent revelations of unlawful practices in high places in the United States and of other traumas both here and abroad, a riptide of conflicting reactions has set in. Some have been moved to view the differences between democracy and authoritarianism as a matter of degree. As an antidote to an earlier self-righteousness and the inclination to regard our actions in the world with excessive self-indulgence, this reaction to the American fall from virtue has definite therapeutic benefits. But in extreme measure, it has reinforced the loss of confidence in democratic societies as the chosen people of human progress, and in the capacity of self-government to cope with the growing complexities of national and international life.

In reaction against this perceived loss of democratic morale, there has emerged a militant support for a more "moral" foreign policy, for different and sometimes incompatible reasons. Some assert the primacy of moral, and particularly of human rights, considerations in foreign policy as a matter of principle—against what is felt to have been the recent excessive preoccupation with strategic power considerations. Others evoke support for human rights issues (along with an increased mobilization of military power) as an element in a renewed ideological offensive against the Soviet Union.

The result of these conflicting reactions has been a period of disorientation on a score of issues confronting the United States and

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other democratic societies. Some of these issues are transient and tactical; others now temporarily obscured involve more fundamental adjustments as part of a longer term process of learning to live with authoritarian regimes. As a step toward sorting out some of the moral and practical elements involved in these adjustments, there are set forth below four classes of problems requiring discrimination: the first three primarily concern aspects of U.S. relations with the Soviet Union; the fourth concerns relations with some less powerful but significantly placed authoritarian regimes.

For our present purpose, the term *authoritarian regimes* is used here in its broadest sense to include totalitarian states, dictatorships, and regimes in which opposition is suppressed. There are of course significant differences between those regimes in which the power of the state controls all aspects of the society and those in which primarily political opposition is prevented from operating, with varying degrees of repressiveness. Some problems are common to this entire category of states and some, as we are coming to learn, are inflected according to the degree of repression exercised.

Democratic societies is used here to distinguish those societies that are committed, with varying degrees of imperfection in practice, to the principle of government by the freely expressed consent of the governed, and to the conditions of free civil discourse necessary to the expression of that consent. Of the many attributes that might be selected to characterize the essential qualities of democracy, this principle most clearly distinguishes between form and essence.

II

The most obvious and perhaps the simplest of the classes of problems that have arisen are those that might be called *structural*. They involve the meshing of pluralistic institutions on the one side with highly centralized institutions on the other, involving a variety of encounters characteristic of contemporary international relations, including economic and cultural relations, contacts in international organizations and between nongovernmental groups. Even conventional diplomatic relations are affected by the asymmetry in the foreign policy-making processes of the two systems. Although these structural problems have not attracted much attention from the general public, they may have considerable ultimate importance.

Although economic relations between the United States and the Soviet Union have developed under government-to-government agreements, their implementation involves largely autonomous individual firms on one hand and, on the other, the Ministry for Foreign

Trade and its subordinate departments, with the participation of the particular Ministries involved, as well as State Banks, the State Planning Commission and in some cases the State Committee for Science and Technology. A process of adjustment has begun on both sides to facilitate the meshing of these dissimilar institutions, and the long-term consequences may be substantial for each.[1]

From the Western side, efforts have been made to compensate for the bargaining advantage which accrues to the centralized Soviet institutions, and to meet the more fundamental problem of the differences between the national interest and the interests of individual firms. The concern of individual firms is quite naturally with whether or not a particular deal is profitable; from the national point of view, policy questions arise as to the advantages of developing economic relations as a means of stabilizing political relations, as against the possible risks of strengthening militarily or economically a state that remains committed to some incompatible international objectives.

As a consequence, a trend toward centralized political control over trade with the East has been set in motion, although the question remains unresolved whether democratic societies are able and willing to exert the degree of centralized coordination or control of national economic policy necessary to administer a coherently regulated trade policy, let alone to achieve the degree of coordination necessary with their allies.

Among the adjustments that have been set in motion in the United States to compensate for the institutional asymmetries are wider interpretations of antitrust legislation to allow firms engaged in foreign trade a degree of coordination normally prohibited in domestic trade; mandatory coordination of information among firms engaged in grain sales abroad; closer congressional supervision of export-import credit practices in East-West trade; stronger Department of Defense involvement in permission for transfer of advanced technology; and a proliferation of government advisory and licensing procedures to recommend or to impose a degree of centralization upon transactions normally not subject to such regulation. The most extreme measure of control was contained in the Trade Reform Act of 1974, and accompanying legislation on the Export-Import Bank, in which the Congress prohibited the extension of Export-Import Bank credits or the granting of most-favored-nation treatment to the Soviet Union unless changes were made in restrictive Soviet emigration practices. As a result of this, the Trade Agreement Act of

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[1] See Raymond Vernon, "Apparatchiks and Entrepreneurs: U.S.-Soviet Economic Relations," *Foreign Affairs*, October 1973, pp. 249–262.

1972 remains unconsummated. If and when a new effort is made to draft legislation for the regulation of East-West economic relations, agreement will be required between the executive and congressional branches of government and the business community upon more effective guidelines and measures of coordination than now exist.

The Soviet side has also made adjustments to facilitate East-West trade. For example, the U.S.S.R. has eased bureaucratic obstacles to direct access by Western firms to the various State enterprises, and it has coordinated the various foreign trade organizations to make compensation agreements with Western firms easier to negotiate. In an effort to make transfers of advanced technology more attractive to Western firms, the Soviet Union has been moving warily and with evident reluctance toward forms of joint ventures. While the Soviets do not permit foreign equity holdings, they do accept Western participation in management functions affecting quality control, though not in personnel matters. Whether the acceptance of Western management practices will result in a wider diffusion of initiative and responsibility in the presently highly centralized Soviet economy is a matter of contention within the Soviet leadership.

The asymmetry of institutions involved in cultural relations has also led to greater coordination in the United States among universities, scientific and other academic and cultural institutions, although here a certain ingenuity has permitted effective coordination without undue loss of independence. For example, under the umbrella cultural exchange agreements negotiated between the governments, implementing academic exchanges is handled by the International Research and Exchanges Board; this enables the universities, on the basis of voluntary cooperation, to speak with one voice to the Soviet Ministry of Higher Education and the Soviet Academy of Sciences.

In the natural sciences, scholarly exchanges are administered by the quasi-governmental National Academy of Sciences, and through participation in the Joint Commissions on various aspects of science and technology by the different U.S. departments of government. These are only loosely coordinated, however, and troublesome questions over the possible asymmetry of benefits to the two sides and the repugnant but apparently necessary invocation of the principle of reciprocity in response to Soviet limitations on unfettered scientific exchanges remain unresolved. A self-study by the National Academy now under way may result in a further codification of exchange practices.

Contacts between nongovernmental organizations, such as the

Pugwash and Dartmouth groups, the United Nations Associations, and inter-academy arms control study groups, have also involved efforts to compensate for the difference between autonomous institutions on the American side and their quasi-governmental opposite numbers. Thus, there has developed through experience an ethic of responsible independence among the American groups, which seeks to make clear the distinction between the official governmental position on issues under discussion and the sometimes critical and independent positions of the participants. As a consequence, exploratory channels of communication have developed whose utility has been greatest when government-to-government channels have been impaired by political tensions.

While the range of independence among Soviet participants in nongovernmental contacts is obviously more restricted, it has nevertheless been widening with experience and the growth of confidence. An important consequence of this is that American participants are able to go beyond the limited printed sources of information on Soviet positions and to become aware of the richer and more complex oral levels of discussion of policy issues.

As for U.S.-Soviet relations in various international organizations, the structural differences between the two systems appear to be less important than differences in policy, except in certain of the specialized agencies. Perhaps the most striking illustration of structural differences in the two systems is to be found in the case of the International Labour Organisation. There the issue of the differences in the function of trade unions in the two societies, which had been subject to a certain accommodation over the years, has become more acute recently. However, even this tension has had policy roots, specifically the critical attitude of American trade union leadership toward elements of the détente relationship.

Finally in the class of structural problems must be noted the institutional differences affecting foreign policy-making. The familiar problem of the role of public opinion in American foreign policy—and of the Congress as the most direct expression of this—has become more acute as a result of a combination of factors, including the Vietnam War, the prices of bread and grain, ethnic sympathies, the lines at gas stations during the oil embargo, and the technological advances that have created a greater popular awareness and sense of immediacy about international developments. The effect of these developments upon U.S.-Soviet relations has been to make for greater volatility and unpredictability, imposing severe limitations on the ability of the executive branch to guarantee the implementation of policies and agreements. To what extent this represents a cyclical phenomenon remains to be seen.

Soviet specialists in international relations have been learning to take into account the pluralism of the American foreign-policy process. They have become more fully conscious of the power of public opinion and its reactions to such developments as Angola, the Middle East, Cyprus, and issues involving the military balance and human rights. While they still suspect that the government has some degree of manipulative power over public opinion and the press, they have turned greater attention to the role of Congress, and deploy a substantial effort to study and influence congressional opinion.

The Soviet foreign policy-making process, on the other hand, is in the hands of professionals and speaks with one voice, free from the complications of a separation of powers or an unruly public opinion or press. The policy-makers do have some problems of coordination—both between the Party, the diplomatic branch and the KGB, and between the national interests of the Soviet Union and the interests of foreign communist parties. Moreover, the absence of checks and balances can make for monumental errors on occasion. And the effect of ideological preconceptions makes for problems in the perception and accurate reporting of developments abroad. This is most acute precisely when it involves pluralistic institutions, for it is difficult to grasp the workings of pluralistic power hierarchies if one has only experienced, and if the history of one's country has only known, autocracy.

III

Another class of problems experienced by democracies in their relations with authoritarian regimes might be called the *induction effect* these relations generate within democratic societies. More specifically, this concerns the degradation of democratic norms of behavior domestically and internationally resulting from the perceived necessity of competing with the methods of totalitarian states.

It is worth recalling that the American people found themselves plunged into the Second World War without having resolved many feelings derived from their experience in the First World War concerning the role of force in international relations or their own role in world affairs. The precipitate release from these uncertainties by the attack on Pearl Harbor, the inevitable brutalization entailed in what came to be called "total war," and the fact that in Hitler's Nazism was found an adversary as close to absolute evil as could be imagined—all contributed to the acceptance and justification of any and all means believed useful to defeat, indeed to destroy, the enemy.

In contrast to Churchill's acceptance of an alliance with the Soviet Union as a necessity which in no way contradicted his earlier judgment of the regime, the Americans, with characteristic indiscriminate enthusiasm for their "gallant Soviet ally," chose to ignore the darker side of Stalin's Russia and the portents of future problems. Consequently, as the inevitable conflicts arose concerning postwar arrangements, the Americans—in their self-induced disillusionment and sudden rediscovery of Soviet totalitarianism—carried over into the cold war many of the same attitudes of mind earlier applied with abandon to the war against Nazism.

Under the best of circumstances, it would have been difficult to expect a measured response to the novel problems presented by modern totalitarianism: its capacity for large-scale espionage, subversion, misinformation, propaganda, front organizations, and covert operations on a hitherto unimagined scale, all of which created a new shadow-world of violence and deceit in international relations. Given the emotional circumstances of our entry into this competition, it was perhaps inevitable that the logic of "fighting fire with fire" should have overcome any moral squeamishness about where, and to what degree, the means employed, however incompatible with previous democratic precepts, were justified by the perceived necessities. Like sheltered innocents discovering the pleasures of sin, Americans found a certain zest in their release from earlier inhibitions.

Two other factors contributed to the disorientation of democratic values in this period. One was the emergence of the age of nuclear weapons and missiles. This brought with it a sense of vulnerability to attack, if not to annihilation; an enormous increase in the militarization of the economy and military influences in the society; and finally the anomaly of mutual deterrence—which involves holding populations hostage to mass destruction—as the best hope of maintaining the peace under the circumstances. The other factor was the profound social upheaval in all industrial countries resulting from the continuing revolution in advanced technology—calling into question traditional values and sources of moral authority.

As recent hearings before the U.S. Congress have confirmed, the response to the need to match Soviet espionage, counterespionage and covert activities led to such excesses as attempts at assassination of foreign leaders, extensive covert interference in the internal politics of other countries, and extensive operations within the United States, involving domestic surveillance and wiretapping, burglaries, forgeries, and penetration of political dissidents in the name of national

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security. The earlier ravages of the McCarthy period also must be counted among the excessive reactions to these security apprehensions. Thus, in the United States, the security apparatus administering intelligence and covert operations developed into a semiautonomous bureaucratic force commanding an estimated $7 billion annually.[2] To some degree at least, the United States had indeed "taken on the face of its adversary," as the French proverb expresses it, with, however, the saving grace that the force of public opinion and the separation of powers have made it possible to take corrective action against these excesses.[3]

Still, the difficulty remains of finding a measured reaction to a true dilemma of how democratic societies can learn to respond effectively to the large-scale covert techniques employed by totalitarian states, without sacrificing the distinctive attributes of democracy. But it has certainly become evident that the blanket justification of "fighting fire with fire" can lead to pernicious consequences, and that the indiscriminate acceptance of totalitarian methods in the belief that the ends justify the means undermines the essence of the democratic spirit, which is inherent in the process rather than in the particular ends sought.

IV

Among the most difficult problems in these relationships are those that stem from the question: To what extent is it legitimate, desirable, necessary—or even possible—for democratic societies to seek to modify the practices or the character of authoritarian regimes in a humane and pluralist direction? Illustrations of these problems include the recent debates about the "Basket 3" provisions concerning human rights at the Helsinki Conference on European Security and Cooperation; the Jackson Amendment linking trade relations with Soviet emigration practices; and Solzhenitsyn's strictures concerning the immorality of dealing with the Soviet leadership on any basis other than a liberalization of Soviet totalitarianism.

The issue is heightened by the workings of an inverse mechanism in the Soviet Union, by which the movement toward a policy of reduced tension abroad is accompanied by a tightening of internal controls.[4] This results from the efforts of the Soviet ideological and police bu-

[2] See Harry Rositzke, "America's Secret Operations: A Perspective," *Foreign Affairs*, January, 1975, pp. 334–351.

[3] See Nicholas deB. Katzenbach, "Foreign Policy, Public Opinion and Secrecy," *Foreign Affairs*, October 1973, pp. 1–19.

[4] See Wolfgang Leonhard, "The Domestic Politics of the New Soviet Foreign Policy," *Foreign Affairs*, October 1973, pp. 59–74.

reaucracies to protect their system of control from being undermined by the widening of contacts with the outside world under the conditions of détente. The effect has been to sharpen the apparent conflict between the détente process and support for human rights, and to appear to identify détente with a callous and cynical indifference to egregious acts of the Soviet security apparatus.

Both moral and pragmatic considerations are involved. On moral grounds, it is argued that democratic societies accept a complicity in the repressive practices of the Soviet Union if they maintain conventional diplomatic relations with its leadership without requiring Soviet observance of human rights as a prior condition, particularly in a time of détente.

But the objective of the United States and other democratic governments to seek to reduce the danger of nuclear war by negotiations with the Soviet leaders is also a moral obligation. Indeed, given the scale of destructiveness of nuclear war, this should be a priority for all governments. With the advent of new and destabilizing forms of military technology, the prospect of widespread nuclear proliferation, and the absence of rational political control over the military policies of both democratic and authoritarian states, to believe that the risks of nuclear war are self-regulating and are automatically reduced by the balance of terror is a profound error.

For governments, therefore, the first order of business must be to regulate the military competition, for there will be no opportunity to work for the strengthening of democratic values if this effort is not successful. This should not, however, prevent individuals and groups from expressing their repugnance for violations of human rights wherever they occur—whether in authoritarian regimes of the Right or of the Left or within democratic societies themselves.

On pragmatic grounds, it is argued that since totalitarian regimes can act aggressively in secret and without the checks and balances provided by autonomous institutions within the society, this in itself is a barrier to peaceful relations. As a practical necessity then, democratic societies should seek to encourage the growth of pluralistic trends within the Soviet Union if a substantial relaxation of tension is to be possible. Some go further to argue the need to seek an erosion of the Soviet ideological commitment to ultimate aims incompatible with peaceful and cooperative relations.

The objective is clearly desirable, but the question is how most effectively to move toward its realization. It should be clear that the effort to compel changes in Soviet institutions and practices by frontal demands on the part of other governments is likely to be counterproductive. Yet external pressures may well be marginally effective, provided they take into account a scale of reasonable feasibility; for example, demands for humane measures in reuniting families may be feasible, whereas demands for measures which threaten to undermine the system's monopoly of political authority are not.

We cannot predict which way the Soviet system will evolve in the future. But it seems reasonable to believe that easing of repression is more likely to result from evolutionary forces within the society under prolonged conditions of reduced international tension than from external demands for change and the siege mentality they would reinforce.

What follows from this line of reasoning is that although the first priority in government-to-government relations with the Soviet Union must be given to efforts to regulate the military and political competition to reduce the danger of nuclear war, this neither requires nor should imply any condoning or accepting of Soviet violations of human rights and human dignity. The ultimate interest of democratic societies does require that they work for an international environment in which democratic values can survive and flourish by a constant projection and encouragement of democratic norms of behavior. What can and should be projected, however, are not particular institutions, such as the capitalist system or the two-party system, which, in any case, individual nations will adopt according to their own preferences; rather, what is essential to promote are those common ethical values such as the commitment to justice, liberty, equality, human dignity and to civil and tolerant discourse, reflecting the emphasis in democratic values on the process rather than on the realization of particular ends. What this implies is that the effort to enlarge the international sense of community be bound not to a particular form of world order but to a process of peaceful change toward the fuller realization of these values.

The faithful observance and projection of democratic precepts in this sense can transcend the American experience and can give expression to the essence of the democratic faith to which democrats in all societies—including authoritarian societies—can feel, even if they cannot now express, their allegiance.

V

The problem of reconciling democratic principles with the necessities of power has also been sharply posed for the United States by its relations with authoritarian regimes less powerful than the Soviet Union. This is illustrated, for example, by the negotiations with

Generalissimo Franco for bases in Spain, the alliance with the Republic of Korea and with Salazar's Portugal and with Portuguese imperialism in Africa, relations with Iran and Chile, and support for a host of dictatorships among the developing countries on all continents.

In retrospect, the dilemmas appear to have sharpened as the American outlook evolved toward a two-dimensional view of international politics. In the early postwar years, Marshall Plan support for the European democracies represented a constructive response to the challenge of Soviet expansionism; the nurturing of democratic forces in Japan and the Federal Republic of Germany as part of an enlightened occupation policy represents an achievement of the first magnitude. But after the mid-1950s, as Soviet operations in the Third World expanded and the People's Republic of China entered a militant phase, American efforts to contain the expansion of the two totalitarian states became more heavily military in their preoccupation and global in their application.

As a result, the United States tended to look upon local conflicts as abstract units in a global contest for military power, with little knowledge of or concern for local political factors; it became aligned with domestic forces defending and stabilizing existing systems, and against social protest movements which it saw only as instruments of world communism. In some cases, in its preoccupation with the military dimension of international politics and with the stability of strategically placed countries, the United States contributed to the spread of dictatorships.

The culmination of this 20-year period of misperception and faulty understanding of the problem was the tragic episode in Vietnam, and the plausibility given to the widespread reputation of the United States as an imperialist power, opposed to the forces of change and modernization in the Third World. The United States has had a series of expensive geography lessons as it has been emerging from parochialism and a hypnotic fascination with a two-color map of the world. Although many genuine dilemmas remain to be resolved in the inherent tension between considerations of power and the support for democratic principles, some painful lessons have been learned.

One of these lessons has been the need to give greater weight to local political factors rather than to strategic or local military considerations as possibly decisive determinants. This involves a recognition of the rise of political consciousness throughout the developing world as one of the major elements in contemporary international politics. Although the machinery of U.S. foreign policy-making worked uncertainly in the case of Angola, it did in time turn to the more fundamental political elements of the African problems and has been seeking to address them constructively.

The issue is also illustrated by the conflicting considerations faced by the United States in its relations with the Republic of Korea. There can be no serious doubt that the protection of South Korea from attack by North Korea is a matter of genuine and legitimate concern to Japan and the United States. But there is also little doubt that the repressiveness of the regime of President Park aligns the United States with inhumane and anti-democratic practices and contributes to the potential instability of South Korea. While no simple resolution of this dilemma is possible, the United States has been seeking to manage these conflicting considerations with quiet gradations in its degree of diplomatic and military support, and at least to make known its preferences for the moderation of repressive practices.

Another lesson derives from the uncertainty regarding the viability of democratic solutions to the problems of developing countries. Clearly, the earlier expectations that the American experience could provide a model for developing countries to follow have proved naive. Thus the question has emerged as to whether some degree of concentration of political authority may not be a necessary concomitant of the development process. This is the problem posed most sharply by the movement of India in an authoritarian direction. Indeed, this question may be regarded as but one aspect of what has been called the crisis of liberal democracy in the present period, which has raised the more general problem of the governability of democratic societies in the face of the increasing complexity of the problems they face. A compelling example of this issue is presented by Iran, where a Western-educated elite has been consciously addressing and articulating the trade-offs between social control and freedom, between centralization and the stimulation of initiative through decentralization, between the preservation of traditional Persian values as against the introduction of new values associated with urbanization and industrialization. The choices in each case are not between absolutes but along a spectrum, involving a constant process of experimentation and adjustment. From the U.S. point of view, there remains the dilemma of weighing the strategic importance of Iran's position on the Persian Gulf and of Iran's supply of energy resources against the authoritarian character of the regime. But the experiment must be viewed with insight, in full consciousness of the degrees of repression involved and of the limited applicability of our own experience to the problems Iran is facing in charting its path toward modernization.

It is evident from these few illustrative examples that international life rarely affords us the luxury of clear either/or choices between considerations of power and support for democratic principles, and that we are obliged to express our preferences in the light of particular circumstances, rather than as moral absolutes. This implies the need to respond with discrimination to varying degrees of repression in specific cases, and to acknowledge frankly when necessity compels us to compromise, rather than to obscure or glorify conditions that offend our sense of justice.[8]

VI

The four classes of illustrative problems discussed do not of course exhaust the large array of questions raised by the relations between democratic and authoritarian systems, but they suggest a few general reflections.

First, our brief review of this aspect of the American experience presents a record that has more than its share of fallibility and imperfections, but also one that draws strength from its ability to learn, to expose and to correct its shortcomings. Learning to deal with the novel challenges presented by modern totalitarianism has strained democratic institutions and will continue to do so. But the lesson that emerges most strongly from this experience is that for all their disadvantages and imperfections the attributes of democratic society are also its greatest source of strength. We have learned that the moral strivings of a democratic foreign policy cannot be regarded simply as additives to a policy based upon naked power, but are the heart of the matter, inextricably involved in the way power manifests itself and is applied. The effectiveness of our power is not just a matter of numbers; it depends no less upon the perception that we exercise that power in a measured and responsible manner, consistent with the aspirations of democratic societies.

Second, if security means that what we seek to protect is not only territory but a system of values, then we need a broader and more enlightened understanding of our real security interests than now prevails. While a military equilibrium is clearly necessary, security also involves forms of power which respond to human aspirations for improved conditions of life, for equality of opportunity, and for justice and freedom. It is not a question whether or not to act upon the national interest, but whether we perceive and define that national interest in terms broad enough to respond to the actual determinants of political behavior.

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[8] See William P. Bundy, "Dictatorships and American Foreign Policy," *Foreign Affairs*, October 1975, pp. 51-60.

Third, changes in military and industrial technology as well as in transportation and communication have radically altered both the substance and the process of international relations. The greatest source of danger to our security arises from our failure to comprehend the implications of these changes, and that as a consequence the present international order, to the extent one now exists, will dissolve into widespread anarchy and violence. It is therefore a central requirement that our actions serve to strengthen the international system, and that we seek as a long-term objective to draw the Soviet Union, China and other authoritarian regimes into constructive participation in that system, as they come to appreciate their self-interest in doing so.

This brings us to a final point: both compassion and realism should incline us to recognize that behind the monolithic stereotypes we have created of the Soviet Union and other authoritarian regimes exist a variety of political currents, reflecting human aspirations in all their diverse forms. We should not regard it as inconsistent with our most strenuous efforts to compete against expansionist tendencies on the part of these states that we should also open a dialogue with a variety of voices within these societies. At its best, such a discourse, eschewing polemics, can engage those philosophies which start from individual man at their center with those that proceed from a concern for the needs of society as a whole.

Convergence is not likely, for each society must evolve in terms of its own history; yet each society is evolving not only in response to the complexities of our age but also in response to our interactions with each other. For our part, we seek to meet the problems of mass society and the rational organization of our material resources while preserving humanistic respect for the individual and the spiritual realm which is his domain. We must remain firm in our faith that in time those who live in authoritarian societies will find their own way to express the aspiration for freedom that is in everyone.

AMERICA'S FUTURE: THE THIRD CENTURY[*]

THE HONORABLE BARRY M. GOLDWATER

IN BRIEF

The next five to ten years will be a critical period for America's future—both at home and abroad. No country can shape and implement a successful foreign policy unless its domestic affairs are in order. In its domestic affairs, the United States is failing on four fronts: the material and psychic cost of government, the emergence of a massive uncontrolled bureaucracy, substitution of the notion of equality of end results in place of equality of opportunity, and the decline of individual responsibility. We can and must turn around our failure on all four fronts. The American strategic withdrawal from the world scene raises several questions: Can the United States be depended upon to honor its obligations? To what degree does declining U.S. military power render us less and less potent? To what degree are we rendered impotent by the fact that U.S. foreign policy has now become a prerogative of Congress? Will the adversaries of the United States seek to exploit the situation, and how? What does the United States intend to do about it all? We must return to bipartisanship in foreign affairs, and the initiative and conduct of foreign policy must be returned to the Executive. Let us all realize that foreign policy cannot be made in the streets. Let us also realize that every foreign policy venture is dependent upon an America which is militarily and economically strong under strong Congressional and Executive leadership. We must undertake international commitments only when these are clearly in our national interest, which is that of preserving a global balance of power. The United States must show a determination to adopt this winning strategy or we shall face the inevitable extinguishment of our liberty.

America's future, particularly in the next five to ten years, which I think will be the critical period of our country's life, has been of great concern to me for many years. The problem is a two-headed monster. The United States has serious problems at home and it is in trouble around the globe. Each set of problems requires its own solution, but no country can shape a foreign policy, let alone successfully implement one, unless its domestic affairs are in order.

The United States is about to embark upon its third century. It seems to me that this event will be a watershed in United States history.

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One hundred years ago in 1876, when the first century became the second century, there was general continuity. There was a continuity of material progress, a continuity of faith in the nation and in each other, a continuity of belief in our institutions, and a continuity in that vital sense of American community. As we now face our third century, I do not see that same continuity before us. Instead I see change and none of it for the better. It is popular to call for change, but we must remember that change for change's sake often produces as many ills as benefits.

What has gone wrong? Where has it gone wrong? I believe that the answer rests in government itself. Government is no longer the arbiter and manager of problems—but it is the problem. In fact, government has become a destabilizing influence in our national and daily lives. Over the last three thousand years of history, the workaday record of government, no matter where it has been instituted, has not been very good. As one analyzes the record of governments in general, a number of distinct, pervasive antisocial tendencies can be observed. I would classify these as follows:

1. A profligate spending of monies with resulting inflation;
2. The making of promises they cannot keep;
3. Operational inefficiency at all levels;
4. An ignorance of the very people they are supposed to govern;
5. The abuse of power;
6. A tendency to drift into wars they cannot handle.

I think this listing holds true historically. Indeed, the Founding Fathers would nod in agreement. It is my further belief that in recent times with the rise of extremely large and centralized governments, these tendencies have worsened. The whole rationale for the very founding of the United States of America was to curb the ills inherent in government, if not to prevent them. Today we are failing to meet that original ideal. There is failure on four fronts:

First, the material and psychic cost of government;
Second, the appearance of a new and modern phenomenon—the bureaucracy and the tendency of big business to join that bureaucracy;
Third, the rise of a new notion, not that of the equality of opportunity, but of equality of end results;
Fourth, and perhaps as a result of this, the decline of individual responsibility at all levels.

The Material and Psychic Cost

On the first front, the United States is now spending one-third of its gross national product on government, an awesome figure representing a significant part not only of our own material wealth but of the planet's material wealth. Since the mid-sixties, but beginning in the thirties, we have witnessed massive government spending on almost every activity in which individual Americans are involved. The indirect cost is even more staggering; one cannot embark upon even a simple business operation without a mass of regulatory forms and a team of attorneys. It has been estimated, for example, that regulatory agencies alone add $138 billion per year to the cost of the products Americans buy. While budget deficits run close to $100 billion per year and our national debt climbs to beyond $500 billion, capital formation is in substantial degree drawn away from productivity into debt servicing. Government is not solely responsible for depreciating capital formation but it is by far the greatest drain upon this resource. It is important to realize that this is part of what government costs.

There is another cost of government—the psychic cost—which falls most heavily on the poor and the minorities. They have been promised so much and have received so little. They have been promised change—change which presumably was going to lead to their betterment.

In the forty years or more that these promises have been made, poverty still exists, lack of education exists; in fact, very little of what politicians have promised has ever been delivered. It is a tribute to the poor and the minorities that they have not reacted more vociferously, having been promised so much by government. In their hearts they know they have been duped, promised a solution to their many ills by a benign father in Washington who, in the event, could not come through—indeed, had no chance to come through.

The Bureaucracy

Allied to the cost of government is yet another phenomenon, the emergence of a massive, centralized bureaucracy. Today the bureaucracy has partially replaced the Congress as the governing body of our nation. Even the President cannot make a unilateral decision and hope to have it carried out unless the bureaucrats go along. As far as Congress is concerned, the best it can do is to place minor curbs on spending by the bureaucracy. Indeed, many departments and agencies, especially the latter, operate without any reference to Congress at all except that of presenting their annual budget demands. There are some departments and agencies that operate more like independent states within the state than they do as public servants. And who controls this monolith? The answer is no one! The bureaucracy is responsible to itself. Congress controls departmental and most agency heads but these few individuals usually have only a short tenure in their positions, and they barely impinge upon the bureaucratic modus operandi and affect its basic nature not at all.

There is yet another element in the bureaucracy that is even more disturbing. As the bureaucracy grew and gained power, big business, if it were to function at all, had to come to terms with the bureaucracy, and eventually big business moved into an uneasy alliance with the bureaucrats. As a result we now see big business increasingly being protected by the bureaucracy, protected from competition with more go-ahead rivals. The original purpose of all this regulating, with its massive overload of red tape, was to protect the public from the corporations; but today in many instances the position has been reversed—it is the corporation that is being protected from the public. And the corporations, most of whom do not like the situation, have little option but to go along. As a third stage, we now see big business calling for centralized planning in conjunction with the bureaucracy, and I find this potential accretion of power between bureaucracy and business singularly disturbing. The free competition of the marketplace has given way to regulation and, as a result, true competition is disappearing.

Quite frankly, I believe that the bureaucracy is now out of control. It is not controlled by the elected representatives and it cannot control itself. It is impervious to such old-fashioned notions as individual responsibility for bureaucratic action, service to a citizen, restraint of authority and, above all, civility in its public contacts.

One of the biggest challenges of our third century is that of controlling the bureaucracy. We have antitrust laws to prevent any one corporation or cartel from dominating an industry. We now need similar constraints to prevent the bureaucracy from dominating our country and our lives.

We have to look at the situation in the same way we would if we had to face the threat of unbridled power in Washington in some other form. We would expect Congress to take action and it is here that the responsibility lies. Such Congressional action could take several forms. First, Congress should stop passing so many laws. Sadly, most laws emanating from Congress are ill-conceived, badly researched, overcomplicated and probably unnecessary. Those laws arise not from the people's demands but because of unwise promises made during elections; capricious attempts on the part of Congressmen to capture public grievances which would best be settled by the public itself; through ideologists who feel that they can run your life better than you can; and, sadly, laws sometimes arise through plain bad judgment. Since every law has to be administered and thus causes growth, a steady, remorseless growth in bureaucratic size and power results.

Equality of Opportunity

And now let me raise yet another issue. This republic was originally founded upon the principle of equality of opportunity. This is a noble principle. More recently the stress has been upon equality of opportunity for *all*. This refinement—for all—is even more noble. But both the original concept and its refinement have now been debased. Instead of striving for equality of opportunity, we now seem to be demanding instead equality of results. It is no longer enough for law to give everyone an equal chance. Instead Congress and bureaucracy alike seem to be promising that from this equality of opportunity will arise an equality of results. Thus the poor are assured and led to expect not merely that they will have the chance, but that instead they will *inevitably* end up with college degrees, the fancy houses, the trips abroad and what have you, which are said to be synonymous with the "good life." The state has little to do with achieving these expectations and certainly is not the guarantor.

What is needed is a return to the ideals of individual achievement and responsibility. I offer this as a substitute for Washington-managed social engineering and its massive intrusion into our daily lives.

The Challenge

As Americans enter their third century there are momentous tasks for them. The first is to recapture our traditional view of government. That is to say, government must be limited in its scope because by its nature it has limited capabilities. We must also remember that unlimited government rapidly degenerates into inflationary economics, into false promises, into lies, inefficiency, ignorance and into the abuse of power. We must also remember that the material and psychic cost of such government can end in material and moral bankruptcy.

A second task is to limit, probably by constitutional means, the power of the bureaucracy, the executor of government, as it seeks to take over our lives and ultimately our spirits. Within this task we must also sever business from the bureaucracy and return to a system of free competition arising from free enterprise.

A third task is to turn around the betrayal of fundamental principle, the betrayal of equality of opportunity. It is a betrayal of a fundamental American principle to pretend that the state can provide equality of results.

And, this leads to the fourth task for the third century. As we return to equality of opportunity, let us recapture the sense of individual responsibility. In the latter two tasks the responsibility is that of every individual in our vast land.

We can do all of this. I have never wavered in my respect for and faith in the American people. In our first two centuries we have achieved more than any civilization yet known to man. If we are to play an international role in an increasingly anarchic world, we must succeed in these tasks. We must, to conduct an effective foreign policy, develop at home a political and social fabric which is strong, unified and imaginative. Can we do this, or will the third century be an epilogue, given over to an apathetic people half enslaved to a worthless government? Or, will the third century be but a prologue to even nobler times? We have the capacity for the latter. That is the option I choose.

The World Scene

An American strategic withdrawal from the world scene is now underway and at an ever-increasing pace. We are abandoning valuable relationships with allies in Asia and in Europe. Substitutes do not exist elsewhere in the world. Soon we may well be alone. At present, the initiative in Europe and Asia has passed entirely into the hands of our adversaries. We must now react to their moves. This is always the nature of a retreat. In the face of this situation, the United States Congress, with the enthusiastic aid of the media, acts to hinder Executive prerogatives in foreign policy and will, if left alone, emasculate the Executive. We have already reached that state where we will not honor any external obligations except in the most extreme contingency, which means when it is too late and, therefore, highly dangerous to the world at large.

What are the potential consequences of this retreat?

Especially I must raise the question: Where will it stop? Where will a new American frontier be drawn and what will be our status behind this frontier? But, before I do this, let me offer four basic suppositions as to why we have reached this powerless state. Let me present these suppositions in a form that our allies might pose:

1. Can the United States be depended upon to honor obligations when the need arises?
2. To what degree does declining U.S. military power, especially the example of its misuse in Vietnam, render us less and less potent?
3. To what degree does the fact that U.S. foreign policy has now become a prerogative of Congress render us impotent?
4. Will the adversaries of the United States

seek to exploit the situation and in what way?

The ultimate question then arises: What does the United States intend to do about it all? But, let me first look at the world which now seems to be shaping up. I recall that it has been said, "men prophesy and history makes fools of them." Nevertheless, let me now make some prophecies and hope that my record will be as good as that of past years.

The Soviet Threat

Europe is still our most significant economic and cultural link in the world and quantitatively our most powerful military alliance. As I see it, Europe is in the process of being strategically out-flanked by the Soviet Union along its Mediterranean seaboard on a grand scale. Soviet naval power has for some time been able to compete with the Sixth Fleet which, in any case, I have always regarded more as a target than as a deterrent. But, more importantly, it is through the Mediterranean gateway that the oil which is the lifeline of industrial Europe flows, despite the impact of super tankers and routes around the Cape of Good Hope.

Let us contemplate the changes which are pending in this critical Mediterranean area. We are well aware of the constant threat of war between Israel and the Arabs. The question is, what will the United States do if and when such a war breaks out, and more importantly, what strategy will Israel adopt if it feels the United States cannot be depended upon when the chips are down? It has been suggested that the Israelis will, like Samson, prefer to pull the whole house down around them rather than go under by themselves. This policy of desperation could take many forms. One course would be a pre-emptive war against Egypt and Syria where the ultimate targets are Cairo and Damascus and control of such strategic areas as the Aswan Dam. Such a move would virtually insure the intervention of the Soviets (indeed this would be the Israeli objective) which would in turn force NATO to either surrender or fight. In the longer term Israel might decide to acquire and use nuclear weapons, again forcing a United States/Soviet showdown. Only a powerful United States, whose will is credible, can control such dire possibilities, including the issues posed by the proliferation of nuclear weapons by many states other than Israel. It may well be that a policy for stabilizing the Middle East must be referred to Moscow. Here I wonder if the United States will in the future have the credibility, let alone the power, to back up this policy—to influence the Soviets toward caution.

Let me carry a little further the thought of Soviet out-flanking of Europe in the Mediterranean area. In the not too distant future, Marshal Tito of Yugoslavia will pass from the scene. Yugoslavia has always had a tendency toward fragmentation among its various minorities. Tito, the great unifier, will be gone and there will be internal frictions in Yugoslavia. The temptation for the Soviets to intervene physically will be all but overwhelming. And, why should the Soviets not intervene? Of what countervailing forces need they be frightened? With the Soviets established in Yugoslavia, the Mediterranean would come even more under their dominance. We have also witnessed recent events in Portugal, at the western extremity of the Sea, where a strong Moscow-oriented party is making its drive to power. What will be the relationship between Portugal and the Soviet sea power? Will Portugal become the cork in the Mediterranean bottle?

If even a part of this scenario eventuates, we shall see all of Europe strategically out-flanked. There is no way it can be stopped except by strong diplomatic pressure on Moscow by the United States, backed up by United States power and a United States will to use that power. As I look around Congress, I do not see that will. As I look at the United States military posture, I see it rapidly diminishing while at the same time many of my colleagues in Congress clamor for even more cuts in the defense budget. No doubt many of my colleagues in Congress will convert rapidly from "dove" to "hawk" when they eventually see the seriousness of our eroded position in Europe but, by then, it will be too late. After all, we elect men to Congress to think hard and prepare for long term eventualities, not to repent at the hour of surrender and then pretend that such repentance is leadership.

Asia

Now, let us, in this overview of this possible world to be, look at Asia. The Southeast flank of Asia, that is Southeast Asia, is all but lost to communism, and soon we will face a hostile seaboard running from the Bering Straits off Alaska, along the Pacific Coast of the Soviet Union, along the seaboard of Communist China and into a now nearly Communist Southeast Asia. What will be the impact of this hostile seaboard? Perhaps the two great Communist powers will quarrel over the spoils. I certainly do not expect this new Communist area to be monolithic; most of the old divisions will persist. Someone once said, "God looks after fools, drunkards and the United States of America." Perhaps internal divisiveness will ease the situation. Let us reflect on the strategic importance of Southeast Asia. At this moment there is a super tanker every fifty miles between the Persian Gulf and Japan. Japan, with the world's third largest economy, is totally dependent upon imported oil. Each tanker must run the narrow Malacca Straits which soon could be under Soviet dominance. Will Japan, with this noose placed around her neck, and taking note of U.S. unreliability, turn to us or to one of the great Communist powers for a new arrangement? Will Japan build nuclear weapons? Japan can hardly afford to do nothing.

Then, as a contrast, let us look at the interesting situation of Thailand, the strategic pivot point of Southeast Asia. As the Japanese demonstrated in World War II, he who holds Thailand can move West into Burma and thus into India, or South along the Archipelago of Indonesia to Australia. In terms of communications, the world can be divided in two. The predicament of the Thais who have a bilateral alliance with the United States, in addition to a commitment under SEATO, is interesting. They have already, it seems, made their decision. Even as the Communist forces encircle them, they are asking the remaining elements of United States air power to leave their country. Why? They have seen what happened in Vietnam where we became involved in a bloody war which we had no intention of winning; where our air power was limited to insignificant targets; where our naval power with its amphibious capacity to invade the enemy was held in check, and where our armed forces were misdeployed so that they could only react to the enemy's actions. Then the Thais saw that after perpetuating this shocking situation for some years the United States became tired of it all and departed. They further saw that we could not, even after departure, give adequate military aid to our erstwhile allies. Why then should they want to have any relationship with the United States? Why not instead turn to that classic Thai policy of bending like a reed to the oncoming force, hoping that when it is all over, circumstances would not be so adverse as to prevent the reed from standing up straight again.

At this stage, let me make one other point. I am not advocating that the United States arm itself to the teeth, adopt a policy of hostile belligerence and seek to be the world's policeman in each and every case that violates our concept of international order.

On the contrary, I believe we were right these past five years to try to form a closer relationship with the Soviet Union and to begin a limited relationship with Communist China. But, detente, by itself, is not a foreign policy. What I would like to see emerging from these closer relationships is a more vigorous, a more intensive, a more forward-looking American diplomatic posture in which we clearly let our adversaries know what the United States interests are, what we will do to protect these interests, the power we have to indulge in such protection and, above all, the nature of our will. I had hoped that our recent foreign policy activity would develop into such a diplomatic offensive in which detente was to be but a first step. After all, it is a fundamental maxim of international diplomacy that one conducts one's most skillful diplomacy with one's most dangerous adversary. But alas, through an absence of straight diplomatic talk, through a capricious Congress and a nation whose will has been sapped by the mishandling of the Vietnam War, detente seems merely to reveal to our adversaries the awful extent of our inadequacies rather than the validity of our intentions.

America's Future

But, to get back to the point—what will be the end of this American strategic withdrawal? Where will our frontier be with Europe held hostage; Japan emasculated; a hostile Asia extending from the Bering Sea to Singapore; and with our allies painfully conscious of our unreliability and lack of will. If my gloomy analysis is even partially right, we are in retreat which will end only on the North American continent. What will this mean to a world which has looked upon us as a model and even from time to time as a savior? The details are impossible to predict, except that conceptually, we must now face a different world from anything we have seen before.

In the world situation which I imagine, I foresee the United States as an isolated fortress in a planetary society which is fundamentally hostile to the American ideal. This has been increasingly the case these past ten years during which time our leadership has eroded with more and more societies becoming indifferent to United States leadership.

And now, the pace of this erosion is rapidly accelerating. What will the impact be? Politically the impact could be enormously significant. If history can be our guide, states in this condition, i.e., the United States, tend to follow one of two courses. They fall to squabbling over petty, internal difficulties until government, as we know it, lapses into a corrupt, incompetent anarchy. The alternative is the emergence of the "man on horseback"—the dictator who comes to save the people and ends up tyrannizing them.

There would also be significant economic consequences of this erosion of leadership. There has been only one true international movement in this century and that has been international commerce, primarily among free nations. Here, the United States emerged as a leader. The standard of living of a greater part of the planet has benefitted from this great international movement. I do not foresee any further economic advance in this new world order that is emerging but rather a general decline as the United States withdraws from the world economy. As may be seen in neighboring countries, centralized planned economics produce, as they have always produced to date, a dull, grey level of mediocrity for all. Perhaps, however, our biggest diminution will come culturally. The world needs the United States as a stage wherein freedom and diffuse ideas can be tested (and even accepted from time to time) for the benefit of all mankind. This was what the advent of this Republic meant. This is what our future should offer. This role has yet only been partially fulfilled. It will never be fulfilled by a Fortress America and all of us will be lesser humans because of it.

But, more importantly, a policy of isolation in 1980 will be far different in a world strategic sense from a policy of isolation in, say, 1880. In 1880 the United States had not declared its hand as a world leader, but by 1980 we will have played the role for many decades and, as it seems, will have been found wanting. We shall soon face, if the drift continues, a general world rejection of American leadership and, as I have indicated, everyone will suffer.

Now, you may ask me as a United States Senator: What do we do? Where do we turn? Quite frankly, while I do not see immediate relief in the Congressional arena, I do believe that it eventually must come from there and also from the Executive. An awakened American people must demand the kind of leadership to which they are entitled. Let me offer some guidelines. First, this is not a time for party-to-party divisiveness. We need a return to bipartisanship in foreign affairs. The Executive should brief and consult Congressional leaders before a decisive action is taken and this consultation and briefing must always be totally honest. Congressional leaders must in turn respond in terms of what is best for their country rather than their party or, worse, their own political skins. Secondly, based upon bipartisanship, the initiative as well as the conduct of foreign policy must be returned to the Executive for both long- and short-term actions. Third, and here I appeal to the good sense of the media in particular, let us all realize that foreign policy cannot be made in the streets. Criticize, analyze, evaluate to your heart's content but please do not provoke those kinds of pressures that make politicians forsake their judgment and instead turn to the assuaging of electoral passion. Fourth, we must remember that there are no instant solutions. Solutions arise through the practice of such ancient virtues as common sense, disciplined thought, courageous action, perseverance, honesty and civility. Fifth, let us also realize that any and every foreign policy venture is dependent upon an America which is militarily strong, economically strong, and strong in Congressional and Executive leadership. Last, and most significantly, we must undertake international commitments only when these are clearly in our national interest, which is that of preserving a global balance of power. This is the role that history has placed upon the shoulders of the United States—that of preventing any one power or group of powers from obtaining a total hegemony over the planet. To prevent such hegemony from taking place will require us to enter into alliances with others. Such commitments should be entered into sparingly and only after the most mature and solemn national deliberation. Once entered into, however, both ally and adversary alike should know beyond any doubt that we will thereafter honor each obligation to its ultimate consequences, regardless of cost. It is then and only then that we shall enjoy a stable world. But such a situation will in the end arise not solely from a responsible Congress and an able Executive, but from a stable and strong people. That is the key.

Thus, it is to the American people with their common sense and natural instinct for the good of their country that we must seek our salvation. But, the American people must be accurately informed, not misinformed to suit the personal inclination of any group or the political machinations of elected or appointed officials. I make a plea today for the people to be told the truth. To be informed, the American people need leaders who "tell it like it is" and who have the courage and ability to deal with the real world as it is and in full view of the people. Above all, we need a Congress which places a coherent United States foreign policy above party and above personal interests. We have had such leaders before. We have had a responsible Congress before. We can have it again, but I believe it is only the American people who can effect this transformation.

I do not like what I see ahead of us. But, we have enormous material and spiritual resources, most of them as yet untapped. We have now come to that time when we must draw upon these. With our latent capacities unleashed, I have no doubt that the situation can be reversed.

The basic underlying requirements to solve both our domestic and worldwide problems rest upon strong leadership from the President; the better understanding by the Congress of its place in our tripartite form of government and its responsibilities; and from the people themselves a willingness to make whatever sacrifices are needed in order to achieve those goals which guarantee the perpetuation of our Republic and our way of life.

Within five or ten years, and I am afraid closer to five, the United States must show a determination to adopt this winning strategy or I fear that, like Rome, we as a nation will continue on a downward path which can only end with the inevitable extinguishment of our liberty.

CRACKING THE CONSENSUS: AMERICA'S NEW ROLE IN THE WORLD*

by Richard J. Barnet and Richard A. Falk

"Working Papers' foreign affairs editors inaugurate a forum for rethinking U.S. policy."

According to conventional wisdom, the bipartisan foreign policy consensus established during the Truman administration broke down during the Indochina War—and Nixon, Ford, and Carter have been struggling to put it back together ever since.

There is a sense in which this view is accurate. In the late 1960s, what was to have been another Korea-style "police action" did not follow the Pentagon's script. During the Tet offensive in Vietnam, National Liberation Front guerrillas kept intruding into American living rooms. Young men from the United States, disproportionately black and poor, kept dying, and in sufficient numbers to alarm a large number of voters. Out of all that emerged a "dump-Johnson" movement and an antiwar movement. The government responded with a "new" foreign policy: "Vietnamization."

Under the new policy, American boys would be kept out of distant ground wars, and indeed the draft itself was ended. U.S. air and naval power would back up the efforts of indigenous forces to keep the peace in Asia, Africa, and Latin America. In each region a designated surrogate for American power (Iran, for example) would act as local peacekeeper, and would be sold billions of dollars' worth of arms to do the job. Between 1971 and 1977 the United States sold $55 billion in arms, three times the total for the preceding 20 years.

All these measures—together with a moderation of the anticommunist crusade, symbolized by presidential visits to Peking and Moscow—relieved much of the public anxiety that had developed during the Indochina War. If Nixon's "generation of peace" was not quite at hand, at least the prospect of escalating war had receded. The professional critics, while welcoming the reforms, attacked the secrecy and deviousness that had made them possible. But deviousness was the essence of the policy. The whole idea was to maintain pre-existing power relationships in the world while pretending to the American people that essential commitments and risks had been reduced.

In the presidential campaign of 1976, such debate as there was on foreign policy focused on Henry Kissinger's cowboy style. The lone ranger, as Carter called him, was too friendly to wicked dictators, too secretive, too insensitive to the moral purposes for which American power should be wielded. Detente was a one-way street, and Kissinger was conspiring with his friends in the Kremlin to keep the people of Eastern Europe in permanent captivity. The United States would fly the banner of human rights around the world, and the American people would again have a government that (in Vice-President Mondale's words) made them "feel good."

But the government they got in the areas of foreign policy and national security was a group of

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recycled second-level Indochina War planners and savants from the Trilateral Commission. Though determined to complete the task of restoring the consensus, this group has so far been unable to reform U.S. foreign policy in any significant way. After a year in office, impressive goals—zero nuclear weapons, a worldwide human rights campaign, an effective program to combat nuclear proliferation, a drastic cut in arms sales, extrication from Korea—have been mocked by inept and contradictory policies. Although relations between the United States and the Soviet Union are less tense than at the height of the cold war, the political foundations of détente are thin, and new weapons systems such as the cruise missile, the MX, the neutron bomb, and Soviet heavy missiles are creating a much more unstable military environment. As U.S. power to maintain stability on our terms fades, and as conflict over international economic issues intensifies, we can expect mounting struggles to liberate former colonial areas and to create an international political economy in which they can survive. Thus the world, it appears, is more anarchic, more dangerous, and less guided by human rationality than at any time since World War II.

It is Carter's bad luck—and ours—that it is now too late for the Nixon Doctrine with a human face. The foreign policy consensus has been restored—indeed, as we shall argue, it was never really broken—but the wisdom of the Trilateral Commission, the Yale Economics Department, and the Council on Foreign Relations, even with a new look, is not going to achieve security for the American people or peace for the world.

As the small circulating elite that makes foreign policy sees it, their principal task is to preserve the *domestic* consensus that supports the economic and military policies by which the United States has maintained its dominant position in the world since 1945. This domestic consensus is based on a center-right coalition that has not been seriously challenged from the left since the Henry Wallace campaign of 1948. The McGovern campaign in 1972 was less a challenge from the left than an effort to tilt the consensus in a left-liberal direction. But even that failed (as did Goldwater's attempt in 1964 to tilt it "too far" rightward).

The power of the political right in this coalition comes from its regional electoral strength, especially in the South and portions of the West; from its dominance in the Republican party apparatus; and from the importance of conservatives in business, the military, and other parts of the government bureaucracy. These power bases assure conservatives regular access to top policy makers on critical foreign policy issues. Because of its financial resources, the right also has considerable strength in the media and in certain national religious organizations. Thus if a Ronald Reagan cannot yet be elected president, his views and those of his supporters help to set the terms of national debate and to intimidate the moderates, especially on military and national security issues.

On the left there is no comparable influence. The left has typically lacked both money and people in power. The natural base of left strength is the labor movement, but labor's moderate leadership leans rightward on foreign policy issues. For a period in the 1960s it looked as if militant minority politics might lead to an enduring left presence in foreign policy: late in his life, Martin Luther King, Jr., saw the link between repression at home and imperial adventures abroad and was making a real effort to forge a common constituency of civil rights and antiwar activists. But the assassination of King and the demoralization of other black leaders ended the prospect for such an alliance. And the concerns of most blacks, in any event, remained focused on domestic policy.

Only at the height of the Indochina War, when the failure of U.S. policy was so manifest, did left perspectives exert a temporary influence. The vehicle, of course, was a loosely organized, campus-centered antiwar movement. But when Lyndon Johnson pulled out of the presidential race in 1968, thus signaling a commitment to "winding down" the war in Southeast Asia, and when some time later the draft was ended, this fragile left-leaning movement collapsed. The center-right consensus was thus able to survive even Watergate.

Largely because of the war's impact, however, a left critique of U.S. foreign policy has emerged; it has been espoused by a few prominent academics and cultural figures, and—on single issues—occasionally by politicians. The essence of this critique is that America's managerial role in the world leads to counterrevolutionary policies overseas and a "national security state" at home. Vietnam, according to this view, was not a "mistake," but an extension of imperial policies designed both to make the world safe for multinational corporations and to assure continued access to global resources on cheap and easy terms. Anticommunist cold war propaganda, according to the left analysis, has been used by the establishment to provide a spurious legitimacy for the reactionary alliances and antipopulist interventions that characterized the postwar era, first in Western Europe and later throughout the third world. Covert operations of the CIA designed to stabilize right-leaning regimes and to destabilize left-leaning regimes had bipartisan support. Because of traditional Republican reluctance to commit U.S. military forces to foreign wars, the covert arm of the national security state dominated American cold war strategy during the Eisenhower and Nixon years. The Democrats—Truman, Kennedy, and Johnson—were heavily involved in covert operations too, but their major attention was absorbed by large combat operations in Korea and Indochina.*

This critique has ordinarily had little influence on the dominant consensus. What foreign policy debates do occur in the United States take place between the center and the right. Because of conservative power in Congress and in the national security bureaucracy, dissent from the right is taken seriously by the White House while dissent from the left can usually be ignored with impunity. In fact, the right is often able to portray the center as the left. The code words are "soft," "woolly," or "irresponsible."

The current Panama Canal treaty ratification struggle exemplifies the process. The administration, reflecting the dominant consensus, has struck a prudent bargain with the Panamanian government. Under this agreement the United States retains the right in perpetuity to intervene to protect its interests in the canal, while renouncing formal control after 1999. The right has seized upon the issue of "giving up the canal" because it raises symbolic concerns of national sovereignty that have powerful emotional appeal. The strong grass-roots movement that has arisen in opposition to the treaty attracts sentimental imperialists who cannot bear to bend with the times. The center position, which is endorsed by such right-leaning political figures as Gerald Ford, Henry Kissinger, William F. Buckley, and Admiral Elmo Zumwalt, is a form of rational imperialism that recognizes the need to give up symbolic rights in order to retain the substance of power.

The left has been silent on the issue, though a genuinely anti-imperialist policy would challenge America's right to intervene at all in a third world country's political destiny for the sake of its own geopolitical interests. The whole thing is reminiscent of the famous Eisenhower letter to Diem, which, though less explicit, was used by three presidents to justify the "commitment" to invade Vietnam.

But even when a left analysis exists, it is usually excluded from mainstream political discourse. Exponents of a left-leaning foreign policy—one that was anti-imperialist, that opposed the arms race and the worldwide traffic in weapons, that rejected the idea that multinational corporations define U.S. interests in key areas of the world, that accepted the necessity of a more equitable distribution of political and economic power in the world—are not invited into the coalition that runs the national security establishment under both Republican and Democratic administrations. Despite his Nobel Peace Prize, it would have been unthinkable for King to have been given a high foreign policy job. UN ambassador Andrew Young, who is not King, does not appear to have such a job either. Nor are serious alternative ideas for the conduct of U.S. foreign policy given much consideration by those in power.

To date, foreign policy has been the property of an elite, who have treated it as their own exclusive preserve and have made far-reaching decisions in the name of the American people. These decisions have benefited some Americans but not most Americans. Policies in Latin America or Iran that benefit oil and copper companies and other multinationals do not necessarily benefit U.S. workers or consumers. Indeed, the interests of the latter may be opposed to the specific foreign policy goals of the big corporations and the financial community. But most domestic constituents are unrepresented in the making of crucial foreign policy decisions.

We believe that a serious movement to

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* There are, of course, other differences too. The consensus developed and largely dominated by the Democrats has been liberal in character, idealistic in tone, and supported by labor and minorities. The rightward side of the consensus, in evidence during Republican administrations, is moderate in character, realistic in tone, and responsive to the interests and prejudices of the white middle class. Ironically, despite Nixon's effort to build a permanent right-leaning political coalition, his foreign policy remained centrist, even liberal. Indeed, because of his China visit, Soviet détente, and Kissinger's negotiating prowess, Nixon's policy was more left than the liberalism of the Democrats on traditional cold war issues.

democratise American institutions, to assure economic rights, and to end the unaccountable power of corporations over our national life—indeed, the whole agenda of *Working Papers for a New Society*—needs a forum for debating the connections between alternative domestic policies and foreign and national security policies. As we see it, the task is to develop a foreign policy that makes possible the security and economic well-being of all Americans; those objectives, in turn, require a significantly more just global economic order and more rational security arrangements.

The critical question we need to answer is this: what is the effect of our foreign and national security policy on the possibilities for a decent life in the United States—for finding and keeping a job, for developing the new technologies we need for survival, for building communities that can maintain order without repression? The two issues that will determine the answer—that will determine whether the next generation of Americans survives in peace and relative prosperity, and whether it survives at all—are the arms race and the restructuring of the world economic order. Their fundamental terms are scarcely discussed at all in the political arena.

Once again, the arms race has come to a turning point. It appears possible, just as it did after Stalin's death and after the Cuban missile crisis, to stop and even to reverse the arms race. Both sides are poised on the threshold of major new weapons systems, and both are under domestic pressure to cut military expenditures. But the signs are not auspicious. Relentless bureaucratic pressures, economic dependence on the arms race, and old habits of mind are pushing the world toward ever larger arms budgets and militarization. There are debates about weapons systems, numbers, capabilities, and such esoterica as the state of laser-beam research and the significance of "throw-weight." The congressional doves who for a few years succeeded in making minor cuts in the Pentagon's budget have lost many of their recent battles. A tentative victory, such as the president's decision not to build the B-1 bomber, leaves them exhausted, unable to muster the strength to oppose substitute systems that are in fact more dangerous, such as the cruise missile.

Unless the United States and the Soviet Union achieve far more comprehensive and radical measures of disarmament than are now being proposed, the U.S. arms budget will reach $150 billion by 1980. Despite a rhetorical commitment to slowing down the traffic in conventional arms, the Carter administration's policy continues the Kissinger weapons-transfer strategy that has caused the global arms budget to climb to almost $400 billion a year and that has encouraged the spread of military dictatorships throughout the former colonial world.

More serious than the funds wasted in such an enterprise is the increasing possibility of nuclear war. The momentum of the arms race is now carrying weapons designers and strategic planners into the Strangelovian world of "limited nuclear war" options and "disarming first strikes." The neutron bomb (also called "enhanced radiation weapon") serves to make nuclear weapons more acceptable. It is ostensibly designed for the battlefield, in particular a Soviet invasion of Western Europe. But that prospect is remote: no one can give a good reason why the Kremlin's leaders, who can barely control the territory they now occupy, should wish to convert their trading partners into a radioactive wasteland. Nor is the specter of "Finlandization"—Soviet political pressure on Western Europe by virtue of having more tanks and men in reserve than NATO—particularly credible. As long as their economies hold, statesmen of Europe are unlikely to wilt at reports of Soviet military strength that cannot be used in battle without jeopardizing the very existence of the Soviet Union. Since the actual use of the neutron bomb in Europe is implausible, it is more likely to be used elsewhere, and indeed, General Alexander Haig has hinted to a European audience that such a capital-intensive weapon would do nicely for counterinsurgency operations in the third world.

The essence of centrist thinking on arms transfer is that no customer is too repressive for conventional arms and no friend is close enough to be trusted with nuclear weapons. We are told that the world will be menaced if "crazy leaders" like Amin of Uganda or Qaddafi of Libya get hold of nuclear weapons, and that nonproliferation is an essential bulwark against future deterioration of the international order. The Carter team frantically instructs foreign leaders to forego sales of weapons-prone nuclear technology (reprocessing plants, for example). But since the United States is the biggest developer and pusher of nuclear technology in the world, Cyrus Vance's sermons are likely to have little effect, particularly given current plans to modernize and expand U.S. nuclear weapons systems. The Carter administration is also considering a new targeting plan for nuclear attack that will emphasize links to food and water supplies to impede "postattack" recovery.

On matters like these the absence of fundamental debate is almost complete. The debate is limited to such topics as how to assure nonproliferation goals, whether it is worth losing the export market in nuclear technology for the sake of non-proliferation, and whether it is too late to stop nuclear proliferation. What is missing is a case for denuclearization and demilitarization, based on the renunciation of nuclear intimidation as an instrument of foreign policy.

We are also at a crossroads on international economic policy. The Carter administration is unwilling to make any significant concessions to third world countries on trade and the world monetary system. There is a new rhetorical commitment to a "common fund" to stabilize commodity prices, but not to the many moderate proposals put forth by the poor countries for an international arrangement that would reverse the disastrous decline in raw commodity prices relative to manufactured goods.

The debt burden of the poor countries is increasing at a staggering rate. The U.S. response is to propose relief for private banks by forcing debtor countries to refinance through International Monetary Fund and World Bank loans. These typically impose severe austerity measures that hit workers hard. Although Sweden and Canada have supported debt relief as an essential step toward bringing the international economy into balance, the United States is adamantly opposed to taking five centuries of exploitation into account in redesigning the rules for maintaining international economic order.

The neoconservative consensus on economic issues that has emerged from the pages of *Commentary* (which takes a hard line) and the work of the Trilateral Commission (which is somewhat more accommodating in style) can be fairly summarized: the United States is the only stable force in the world. The prosperity of the world depends on American prosperity, and American prosperity depends on giving big business a freer hand. We cannot afford international charity and giveaway programs. Feeding the hungry is a utopian goal. We should apply the "lifeboat ethic": integrate those who can abide by the rules into the world capitalist economy and disclaim responsibility for the rest. Hunger and poverty are natural disasters, and the United States should be neither so arrogant nor so quixotic as to take responsibility for what goes on in the third world.

Where the capitalist creed works (this consensus continues), we will, through a combination of private investment and international loans, help poor countries to share in economic growth. Where it doesn't, we will explain it away by pointing to the wastefulness, corruption, and inexperience of most third world countries. The wave of the future is not democracy. Political and spiritual liberation are impossible in a world of scarcity. Even in the industrial countries there is an "excess of democracy"; in the rest of the world militarist regimes are inevitable, since there are no other available "modernizers." There is no reason to appease third world countries out of fear. For the indefinite future these countries are too weak to cause harm to anyone other than themselves.

The Soviet Union, according to the official consensus, has failed to become a model or inspiration for the third world; it now sees military power as the only way to expand its influence. Therefore the unending arms race is inevitable, and the United States must keep ahead, matching the Soviets missile for missile. To suggest that the Soviets have different goals or that American restraint might elicit Soviet restraint is an insidious idea rooted in the "culture of appeasement."

This discussion obscures a fundamental crisis in contemporary capitalism. In reality, the Trilateral countries are increasingly caught between the economic need to maintain profits (to keep investment rates high enough) and the political need to raise welfare and wage payments to keep the population satisfied. Such an underlying tension, at a time of rising energy costs and rapidly growing population, produces both inflation and unemployment throughout the industrial world. Naturally, the center refuses to acknowledge the structural issue; it would draw into question the legitimacy of limiting policy choices to marginal, piecemeal reforms. And just as naturally the right calls for hard-nosed solutions involving downward adjustment in living standards for the poor. That would be a kind of Brazilian solution for America: keep wages frozen while raising profits, thereby expanding credit, stimulating investment, and assuring growth.

In short, liberal notions that have strongly influenced American foreign policy in the postwar era are collapsing under the weight of stubborn economic crisis. The economy of every advanced industrial state is stagnant. Structural unemployment, the direct result of the superfluity of an ever-growing percentage of the world's population in the production process, is a problem throughout the nonsocialist world. In such a world, global welfarism is an anachronism. The benign imperial vision of a Franklin Roosevelt or even a Lyndon Johnson, usually presented as the "American responsibility" to reform and police the world, belongs to another era. In our own time the United States can no longer pretend to be a giant above the fray. It is a participant—the largest, to be sure—scrambling with the others to hold on to global power that is slipping away and to arrange the fast-changing world economy in such a way as to keep its industrial civilization going.

The struggle to build a new international economic order—a struggle characterized by increasing conflicts both among the industrial countries and between the industrial nations and the third world—is posing critical questions for Americans. The radical nationalism of many third world liberation movements has given way to authoritarianism and militarism throughout Asia, Africa, and Latin America. The result is that proposals to shift economic and political power—the new international economic agenda of the non-industrialized bloc—will not mean a fairer distribution of goods and services *within* third world societies, which are often run by militarized elites for the benefit of local landowners, entrepreneurs, and state bureaucrats. Yet a fairer international economy is an absolute precondition for meeting basic human needs around the world and giving substance to the rhetoric of human rights.

Despite that rhetoric, and despite a few idealistic initiatives such as the Peace Corps, the United States has thrown its enormous weight in the world clearly on the side of authoritarianism under the name of "stability." We have a long record of stabilizing anticommunist, probusiness regimes (the Philippines, South Korea, Taiwan, Brazil, etc.). We also have a long record of destabilizing nationalist regimes that seek to disengage from the international capitalist economy just enough to try domestic reforms aimed at redistributing wealth: Iran (1953), Guatemala (1954), Guyana (1964), Dominican Republic (1965), Chile (1973), Jamaica (1976).

The managers of the official consensus have a strong intellectual and political investment in the myth of continuity—the belief that the next 25 years will be like the last 25 and that, therefore, the fundamental policies of the last generation can be extended over the lives of our children. We do not share these beliefs. The risks of massive debt default leading to economic collapse, the human destruction caused by cruel and hopeless austerity policies, the mounting rivalry among the industrialized countries as each seeks to export its economic troubles to the others, and above all nuclear war—all these dangers are far greater, in our view, than is suggested in the narrow and largely meaningless debates on foreign policy and world affairs that now take place in this country.

We are inaugurating in the next issue of *Working Papers* a forum for new thinking on foreign policy and world affairs. The primary focus of this new dimension in the magazine will be the connections between foreign and domestic policy. We will be seeking articles that illuminate the international framework within which domestic reform must evolve. We hope to make *Working Papers* a place where practical, positive ideas for developing a new conception of America's role in the world can be explored. In this effort we will take a hard look at some of the conflicts that are emerging between the interests of American workers, workers in other industrialized countries, and workers in the third world.

But more than a hard look is required. Those who believe that the United States needs some fundamental changes in the way we organize our economy, in the way we manage and distribute our resources, and in other major areas of domestic life have an obligation to develop alternative international policies—policies that are consistent with the global realities of the age we are entering and that can make possible the domestic reforms we seek. Interdependence is now a cliché, but the idea has scarcely penetrated practical politics. No city official or local political group can formulate alternative plans for an American community without seeing that community as part of a global community. There is no longer an American economy that can be successfully managed except as part of a global economy. The price of bread in the local supermarket will more and more depend upon whether the people of Africa and Asia can reorganize themselves—or better, perhaps, be permitted to reorganize themselves—to be self-sufficient in agriculture. Increasingly our own welfare is becoming inextricably tied to the welfare of the rest of the world, often in complex and contradictory ways. The human community is no longer a philosopher's dream. For many purposes it is the only practical political unit within which to address problems of organizing society.

We will seek articles that make several kinds of contributions:

- case studies: inquiries into specific foreign policy questions that develop a critique of centrist thinking and outline a progressive alternative. For example, explorations of U.S. policy toward Korea, South Africa, Iran, or NATO.
- linkage studies: inquiries into the relation between domestic political forces and U.S. foreign policy, and between U.S. policies and their impacts on foreign societies, that clarify contemporary strategies and offer practical, progressive alternatives.
- structural studies: inquiries into the global-managerial and imperial role of the United States, and how that role constrains foreign policy choices, the arms race, and militarism as an international system.
- transition and reform studies: inquiries into the prospects for transforming America's global role in nonimperial directions, as well as inquiries into a new U.S. foreign policy based on creating an equitable, ecologically viable, humane, and durable system of world order.

These categories are not meant to be exhaustive. We will be receptive to anything that moves in humane directions, that challenges the banalities of the current consensus, and that improves the intellectual resources of those in this country and abroad who believe that a progressive American foreign policy is both possible and necessary. We intend this essay as an invitation to like-minded citizens throughout the world to join us in these endeavors. ■

DEBATE PROPOSITION ONE

RESOLVED THAT: THE UNITED STATES SHOULD SIGNIFICANTLY CHANGE ITS FOREIGN TRADE POLICY

U.S. foreign trade policy is at an important crossroads. On the one hand, the impending conclusion of the Tokyo Round of the Multilateral Trade Negotiations marks an ambitious effort to establish a freer world trade regime. The attempt to reduce barriers to trade coincides with a general trend toward greater economic interdependence among most countries. At the same time, there are demands on the governments of many countries, including the United States, to halt or reverse the trend of dependence and erect greater barriers to trade. U.S. policy makers are being lobbied to impose restrictions on imports in order to protect various domestic economic industries and jobs. Protectionist sentiments have been heightened by recurrent U.S. balance-of-trade deficits. The trade deficits have also focused attention on U.S. export policy, particularly on government programs designed to stimulate U.S. exports.

The foreign policy, national security and other non-economic implications of trade are also increasingly important issues. In a number of cases, U.S. foreign trade policy has been diverted from the basic trend toward freer trade in order to accommodate alternative social and political goals. Prominent examples are various U.S. laws which restrict trade with Communist countries and with other countries which have foreign or domestic policies considered inimical to U.S. interests.

The following articles provide background on some of the important trade issues now being addressed by U.S. policy makers.

Charles P. Kindleberger

U.S. FOREIGN ECONOMIC POLICY, 1776-1976*

It is tempting to view the evolution of U.S. foreign economic policy from 1776 to 1976 as one from isolationism to participation to leadership of the world economic system, a process now starting to show signs of reversal. In terms of the theory of private and public goods, this country for some 170 years looked after its private national interest, then spent a quarter of a century playing a leadership role, pursuing at the same time what it conceived as the public international interest, before exhausting itself and perhaps turning back exclusively to its own affairs.[1] Or, in Albert Hirschman's brilliant model of relations within social groupings, the country has moved from "exit" to "loyalty" to "voice"—first a participatory voice and then the voice of command—and may be again heading for the exit.[2]

But such themes would be too simple. The country is not a unified actor with a single set of purposes, but an amalgam of shifting interests which engage customarily in ambiguous compromises. Economic foreign policy may be global or may make distinctions among regions (North America, Europe, Latin America, Asia, Australasia and most recently Africa); among functions (trade, money, capital and aid transfers, migration, not to mention foreign growth and integration). At any one time there are complex trade-offs among various national and international interests rather than any one dominating the others. There is likely to be a high positive correlation among policies regarding different aspects of the country's economic relations with the rest of the world; nonetheless, there is no escape from detailed description and analysis.

Our interest attaches principally to the recent past. I propose first to sketch the period to World War I rapidly. Thereafter follow sections dealing separately with the 1920s, the Depression, the years following World War II through the 1960s, and then from about 1968 to the present. A brief section concludes with reflections on the prospects now facing both the United States and the world.

II

The American Revolution represented not so much a withdrawal from European and especially British life as an insistence on relating to Europe on different terms from those decreed by British decision. The Navigation Acts which determined where and how colonial shipping could be used, taxation from Whitehall, impressment of colonials as sailors in the British Navy—all were economic as well as

[1] Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge: Harvard University Press, 1965.

[2] See Albert O. Hirschman, *Exit, Voice and Loyalty; Responses to Decline in Firms, Organizations and States*, Cambridge: Harvard University Press, 1970.

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political issues in which colonial interests were threatened by imperious decisions at a distance. The isolationism of Washington's Farewell Address (1796) and the Monroe Doctrine (1823) came later, with a revulsion against the Napoleonic Wars over more than 20 years—wars that incidentally enabled the struggling nation first to win its military independence and second to conduct its economic affairs independently.

But the nation had little in the way of a unified national interest. The Constitution of 1789 prohibited export taxation, deliberately foreclosing the possibility that central government could hurt the interests of an exporting state through taxing its output sold abroad. The idea originated not from the free trade of Adam Smith's *Wealth of Nations* of 1776 but in earlier Physiocratic doctrine, which Smith also embraced. "Laissez-faire, laissez-passer" was a French agricultural doctrine to free food for exports, as opposed to the doctrine of supply which would keep it at home for domestic consumption. The latter echoes today in embargoes on steel scrap, peeler logs, soybeans, wheat and the like.

In the absence of export taxes, federal revenues came largely from duties on imports. The Continental Congress levied a tariff of five percent "for revenue only" across the board. Debate followed almost immediately. Madison and Jefferson, from Virginia, wanted low tariffs to expand export trade through buying imports freely. Massachusetts and Pennsylvania sought protection for manufacturing. The tariff of 1789 was a moderate compromise, with five percent duties in general except for rates ranging up to 15 percent on a limited list of manufactures. Alexander Hamilton's well-known "Report on Manufactures" of 1792 did not affect the course of events.[3]

More significant was the Embargo of December 1807, precipitated by British impressment of American seamen. That Embargo, the Non-Intercourse Act of 1809, and war with England in 1812 produced substantial change in the course of economic development. War is the ultimate protective tariff. Embargo and war stimulated the cotton and woolen textile mills of New England and the iron foundries of Pennsylvania. With the restoration of peace, the tariff question became acute. It was a matter not of procreating infant industries, but of preventing infanticide. Agriculture was preoccupied with supplying Europe with grain, cotton and tobacco after the Congress of Vienna, and did not immediately resist; it began to do so after the fall of European agricultural prices, and the passage of the Corn Laws in Britain in 1819. Tariffs were raised further in 1824, but after the "tariff of abominations" of 1828 reaction set in. Early in the 1830s some duties were lowered, and in 1833 the Compromise Tariff produced a more general reduction. That this was followed by the depression of 1837—a result of the expansion of the bank credit by the Second Bank of the United States—led to the Whig, later Republican, view that tariff reductions spell depression.

In this period—and indeed until the last 40 years—the tariff was a domestic issue only. Higher duties in 1842 and reductions in 1846 and 1857 were unrelated to the free-trade movement under way in Europe. Led by Britain, which rationalized tariffs in the 1820s and 1830s before dismantling the Corn Laws and the Navigation Acts in the 1840s and freeing the export of machinery, the Continent moved to tariff reduction on a reciprocal basis during the boom of the 1850s, but especially after the Anglo-French (Cobden-Chevalier) Treaty of 1860. British leadership in the movement was important, as was the ideological character of certain free-trade forces under the influence of the economic doctrines of Smith, Ricardo and Mill.

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[3] Frank W. Taussig, *Tariff History of the United States*, 8th ed., New York: G. P. Putnam's Sons, 1931, p. 15.

Canada was sharply affected by the repeal of the Corn Laws and the Navigation Acts, and some Montrealers contemplated annexation to the United States. A less far-reaching remedy was found in reciprocal trade in natural products in a treaty of 1854. The special economic status of Canada, between the United States and Britain and having particular relations with each, remained an issue for the rest of the period.

While the United States was largely absorbed in its own affairs, many of those affairs, or those of constituent parts of the country, involved foreign economic questions. The Louisiana Purchase of 1803—financed by a loan issued in Amsterdam—riveted the attention of the Middle West briefly on Europe, from which it turned again on a heightened basis to exploration, Indians, land settlement. New York merchants and financiers, New England shipbuilders and traders, Southern planters, canal-builders and railroaders all had eyes on European markets. In transportation, the United States pioneered in fitting steam engines to ships: in the liner, or scheduled vessel that sailed each Saturday whether it had a full cargo or not, and in clipper ships. Cotton-growing in the South exploded in the 1820s and 1830s, and moved rapidly inward from the sea islands and the coastal belt to the Gulf states and across the Mississippi. New York bankers established branches in Liverpool (later moved to London) to finance the movement of staples eastward and of a wide variety of goods westward. The First Bank of the United States sold shares abroad, and the Second Bank borrowed in London on bullion.

With the rise of shipping came an upsurge of immigration, initially from Britain and Scandinavia, and after the disastrous crop failure of 1846, in a flood from Ireland and Germany. (An American myth holds that the Germans who flowed to these shores after 1848 were moved by conscience in revolt against monarchical repression and military conscription. The Carl Schurzes among the migrants, however, numbered several hundred out of hundreds of thousands.) Industrialization in Britain, Germany and Scandinavia after mid-century slowed down the flow of overcrowded peasants from these sources.

In the 1880s, however, there developed an entirely new economic interaction between the United States and Europe. Up to that time the farms of the New World had furnished largely exotic foods and materials not produced on a large scale in Europe—cotton, tobacco and sugar. But after the Civil War, the opening up of the Northwest Territories, with 40 acres and a mule for war veterans, made possible dramatic increases in grain production, while newly constructed railroads and iron-clad, steam-powered, screw-propeller ships became available to move the grain to Europe. Along with similarly stimulated supplies from Canada, Australia, Argentina and the Ukraine, the new flow led to a drastic fall in the price of wheat in Europe, and uprooted a vast army of peasants and landless workers in Southern and Southeastern Europe—who poured into the steerage holds of ships bound for Ellis Island and New York.

Limitation of immigration of "undesirables," including the ill, convicts, and Oriental "slave labor," had been undertaken in the United States in 1862 and 1875. In 1885 an attempt was made to stem the flow from Europe through a ban on contract labor. There was, however, no stopping the flood of workers who came individually and without work, looking for a new chance. The strong tradition of the United States as a place of asylum for the oppressed of Europe prevented the passage of any effective legislation to limit immigration, such as by a requirement of ability to read and write English.

Moreover, immigration from Europe met a critical need in the American growth process. In Europe, economic growth to a considerable extent was achieved through what is called the [Sir Arthur] Lewis model of "growth with unlimited supplies of labor," hardly distinguishable from the Marxian "reserve army of the unemployed." Unlimited supplies of labor off the farm held down wages, raised profits, led to reinvestment of profits and sustained growth. In the United States, early growth came from unlimited supplies of land which furnished a good livelihood to independent farmers. When manufacturing began to flourish—mainly because of the spillover of demand from affluent agriculture and only partly as a response to protectionist tariff policies—the massive infusion of labor sustained the process.

A high land-labor ratio from the beginning meant high wages, and high wages in turn predisposed American manufacturers to labor-saving invention. Eli Whitney responded with the cotton gin, which made possible the expansion of the cotton crop and of British and New England cotton-textile industries. He further perfected interchangeable parts. The Colt revolver, the McCormick reaper, the Singer sewing machine, and the typewriter were among the labor-saving devices which poured forth from Yankee ingenuity. They quickly led to manufactured exports and subsequently to subsidiary factories abroad. The roots of the multinational corporation in manufacturing, usually thought of as a product of the jet aircraft and transatlantic telephone 100 years later, stretch back virtually to the middle of the nineteenth century. The Colt revolver and the McCormick reaper scored successes at the Crystal Palace Exhibition of 1851 and the Paris Exposition of 1855.

Finance had gone abroad as a handmaiden of trade long before manufacturing. Industry and the states of the Republic had borrowed in foreign financial centers since the 1820s, and had chalked up a substantial record of default and failure. The role of the federal government in these matters was small until the 1840s, when the first borrowing of consequence since the Revolution was undertaken to finance war with Mexico. Peabody, Seligman, Morgan, Drexel, and other less illustrious names gradually shifted their overseas operations from trade to investment banking more generally.

In monetary affairs, the United States sought to adhere to bimetallism, and then to the gold standard, although its finances seemed chaotic in the view from European centers, as speculative excess led to boom and bust, mania and panic, especially in 1836, 1857, 1872, 1893 and 1907, which sent shock waves reverberating back to Liverpool, London, Paris, Amsterdam and Hamburg. It was necessary to suspend specie payments and to issue greenbacks during the Civil War, resulting in depreciation of the Union dollar—though to nothing like the extent of Confederate money or the Continental currencies. After the war, the question was merely one of when to resume specie payments, and how. Resumption was achieved in 1879. An important change had been made in 1873, when the flood of silver from Nevada after 1869 depressed its price. A continuous preoccupation since the Coinage Act of 1792 had been to get the ratio of silver to gold right, so as to thwart Gresham's Law that overvalued money drives undervalued out of circulation. Up to the 1830s, when the United States ratio was 15 of silver to 1 of gold to the general European ratio of 15.5 to 1, the country gained silver and lost gold. In 1834 and 1837 the ratio was changed to 16 to 1. By 1872, however, 16 to 1 was too high a value for silver, and bimetallism was then abandoned in favor of gold, to the distress of Populists for the rest of the century.

Tariff policy at this time was dominated by fiscal considerations. When the Treasury was pinched, as in 1862 during the Civil War, tariffs were raised; when revenue was ample, as in 1872, lowered. But by 1890, as a result of depression, the McKinley tariff raised rates, especially on wool and sugar, only to have the act of 1894 under President Cleveland partly reverse the result, largely on the basis of the charge that it had been produced by "trusts." The 1890s were a period of trust-busting and opposition to monopoly. Action against trusts, however, stopped at the water's edge. No action was taken against the collaboration of large American firms with one another or with foreign firms in foreign markets, except insofar as they conspired to restrain competition in the U.S. market.

By the turn of the century, the United States was beginning to move away from an isolationist parochialism to a role in world society. As early as 1853–54, Commodore Perry had opened up Japan to American and European shipping and trade. When the Berlin Conference of 1885 among the European powers accelerated the pace of imperialistic acquisition, the United States became restive. In 1898 the explosion of the *Maine* in Havana harbor provided an excuse for a war against Spain in which Cuba, among others, obtained its independence, but Puerto Rico and the Philippines became United States protectorates. In the chaos which followed liberation, American investors (trusts?) acquired major properties in Cuba, especially the Isle of Pines, in an episode which recalls the carpetbagging in the South during the Reconstruction after the Civil War.[4] Fearful of being left behind by European powers, the United States sought an open door in China. The beginnings of foreign aid may be found in U.S. use of its share of the indemnity required of China after the Boxer uprising of 1900 for charitable work in China.

The sharp depression of 1907 raised questions about the efficacy of the national banking system established in 1863. No longer completely self-sufficient, the country established the Aldrich Commission which reviewed banking legislation in other countries to study how to improve banking organization. Senator Aldrich also gave his name to the Payne-Aldrich Tariff of 1909 which raised tariffs to their highest point in the history of the country before World War I. Democratic victory in 1912 with the election of President Wilson brought the passage of both the Federal Reserve Act and the sharply reduced Underwood Tariff of 1913. The Payne-Aldrich Act was said to favor trusts, and to have produced depression in 1910.

Up to 1914, dominant economic issues were argued in terms of domestic interests in a world taken as given, which U.S. action did little to affect, rather than in terms of economic theory or foreign relations. The British-dominated international economic system served American interests well. The country could afford to be loyal to that system, despite the claims of Southwestern farmers and Western miners that it depressed prices. Gold in California in 1848, silver in Nevada in 1869, the expansion of wheat acreage in the 1870s, and the bubbles followed by bursts throughout the century from 1815 to 1914 affected the system in ways we chose to ignore. That was the business of someone else—perhaps in London. America did what it did. Feedback to other nations was ignored.

III

World War I changed the entire position of the United States in the world economy. According to economic analysis a country progresses through a series of stages: young debtor, mature debtor, young creditor and mature creditor. The United States went from the first to the fourth in three years, from 1914 to 1917. Assembly-line methods devised by Henry Ford just prior to the war were expanded to produce equipment and munitions for the Allied powers of Europe and for the United States itself. Based on the Federal Reserve System, the financial apparatus of the country grew in parallel. J. P. Morgan & Co. financed British and French private borrowing in the United States, and served as fiscal agent in supporting the pound and franc in foreign-exchange markets. In the end, the U.S. government itself undertook to finance Allied borrowing in dollars, especially those for consumption and reconstruction in 1918 and 1919.

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[4] See Carlos F. Diaz Alejandro, "Direct Foreign Investment in Latin America," in *The International Corporation*, ed. C. P. Kindleberger, Cambridge: MIT Press, 1970, p. 321.

Revisionist historians maintain that the entry of the United States into World War I was a continuation of the imperialist policies of the turn of the century, and of the expansion of American trusts into overseas markets needed to sustain the rate of profit at home. These policies are thought to have been motivated by the Eastern establishment's desire, conscious or unconscious, to take over world economic domination from the City of London and other European economic power centers. The U.S. government is said early to have sought the expansion of overseas banking in order to push the use of the dollar in world trade and finance.[8] The theory suffers a logical flaw. Aggressive economic designs would have been more readily achieved by staying aloof from the battle, remaining "too proud to fight." The simpler and naïve purpose of "saving the world for democracy"—a non-economic motive—better fits the facts and the logic.

Saving the world was one thing; keeping it saved was something else. President Wilson had plans for remaining involved in European and world affairs. They were not widely shared. The United States refused to ratify the Treaty of Versailles, to accept reparations, or to join the League of Nations with its Economic and Financial Department to worry about world economic questions. It did, however, join the International Labour Organisation, established at Geneva in response to a proposal of the British trade unionist, Albert Thomas, and did cooperate with the League on a wide number of issues. General commitment to participate in the world political and economic system was withheld.

The war interrupted a wave of immigration which had reached, on a gross basis, one million persons in 1913. In 1917 an Immigration Act was passed after long debate, and over the veto of President Wilson, providing that immigration be based on quotas conforming to national origins of the existing population. This restricted immigration from Southern and Southeastern Europe in favor of the Northern and Western sections. In 1921 and 1924, overall quotas were reduced. The action is generally ascribed to trade-union desire to limit the workforce and preserve wage gains achieved during the war. More fundamentally, the motivation was sociopolitical rather than economic, reflecting widespread concern that it would be difficult socially to absorb the vast numbers of would-be immigrants backed up in the countries of supply.

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[8] Paul P. Abrahams, "The Foreign Expansion of American Finance and its Relation to the Foreign Economic Policies of the United States, 1907–1921," Ph.D. dissertation, University of Wisconsin, 1967, p. 84. A somewhat premature expression of financial aggression is contained in a statement of the *New York Herald* in an 1857 issue: "Each panic has resulted in making the city of New York the centre of finance and trade for this continent. In 1837 it stood on a sort of struggling emulation with Philadelphia and Boston. . . . The rivalry between New York and other cities has ceased. The late struggle of 1857 was in great degree between New York and London, and has terminated in the advantage of the former city. And the time must not ere long arrive, when New York, not London, will become the financial centre, not only of the New World, but also to a great extent, of the Old World." See D. Morier Evans, *The History of the Commercial Crisis, 1857–58 and the Stock Exchange Panic of 1859* (1859), reprinted New York: Kelley, 1969, pp. 113–14.

The most serious economic issues arising from the war dealt with reparations and war debts. Having been strengthened economically rather than hurt by war, the country refused to accept reparations, but insisted on being repaid by its Allies for war and postwar loans. It further maintained that war debts and reparations were unrelated, contrary to French and British positions, the latter expressed in the Balfour Note of August 1922. Not until the Hoover moratorium of June 1931 was the connection acknowledged; and even after reparations had been buried at Lausanne in July 1932, Hoover in 1932 and Roosevelt in 1933 continued to try to collect war debts.

The United States played a role in reparations, however, through private individuals. When the Versailles arrangements broke down after the German inflation and after the occupation of the Ruhr by Belgian and French troops, Charles G. Dawes served in 1923–24 as chairman of a commission to write a new plan. The conventional wisdom has held that Dawes was simply American window-dressing for a staff plan drawn up by British civil servants, but this is now known to be oversimplification. One British aim in the Dawes Plan was that the revised Reichsbank should hold foreign exchange, that is, pounds sterling, among its reserves. On U.S. insistence the Dawes Plan specified that Reichsbank reserves be held in gold—an echo of a controversy between France and the United States forty-plus years later but with the U.S. role reversed.[6]

By 1930, when Owen D. Young served in a similar capacity on a revised reparation scheme, U.S. involvement in European financial questions was complete. While much of the attention of government was focused on domestic problems—the Florida land boom, the rise of the automobile industry, and the decline in agriculture—Eastern finance was being drawn into world affairs. The Dawes Plan provided for issuance of a loan for Germany. The New York *tranche* (or slice) was oversubscribed 11 times and gave a sharp stimulus to foreign lending generally. The Agent-General for Reparations, established under the Plan, was S. Parker Gilbert, formerly of J. P. Morgan & Co.

During the 1920s, moreover, Benjamin Strong, the President of the Federal Reserve Bank of New York, was often called upon to arbitrate the central-bank quarrels of Europe, largely between Montagu Norman of the Bank of England and Emile Moreau of the Bank of France. Strong had a leading role in urging the return of the pound to par in April 1925. Then, within two years, he faced a dilemma, whether to lower interest rates in New York to assist the British with outflows of capital, or to raise them to slow down the boom in business and in security prices. He chose the former, and from March 1928 the stock market soared.

Economists call it a "dilemma position" when monetary policy is pulled in one direction by external and in another by internal requirements. For a long time, Strong's choice of aid to Britain's maintenance of the gold standard over curbing the speculative excesses of the stock market was regarded as a bad one. More recently, "monetarist" economic historians such as the Nobel-laureate Milton

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[6] Stephen V. O. Clarke, *Central Bank Cooperation, 1924–31*, New York: Federal Reserve Bank of New York, 1967, pp. 60–67.

Friedman have shifted the debate, arguing that, while Strong was wrong in favoring foreign over domestic considerations, he should have ignored the stock market and focused on a steady expansion of the money supply.[7] I am no more moved by this revisionism than by the political brand. Money supply was growing, and in fact declined very little up to March 1931. To the economic revisionists, it was not growing fast enough, a subtle argument but unconvincing.[8]

In Wilson's Fourteen Points, only the third had dealt with economic questions, and called for "removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all nations consenting to the peace and associating with its maintenance." It evoked little response, either at home or abroad. The United States in Harding's Administration took action in the Fordney-McCumber Tariff of 1922 to nurture its new crop of wartime infant industries. Tariffs were similarly raised all over the world.

The League of Nations undertook to reverse the trend in a series of conventions, many of them technical, for lifting trade from the chaos into which it had fallen during the war and the period of postwar monetary disturbance. In 1927 a World Economic Conference, with the United States as observer, met in Geneva and adopted a series of resolutions for lowering tariffs and opening up trade channels. No action was taken under it. Instead, Herbert Hoover, campaigning for the presidency in 1928, promised to do something for agriculture to alleviate its plight under the pressure of falling prices, which had begun in 1925. That something was to be what Josef Schumpeter called "the Republican household remedy": increased tariffs. In due course, this commitment ended up as the Hawley-Smoot Tariff of June 1930.

On tariff matters, disaggregated economic interests and recommended policies diverged for ideological reasons, or what is perhaps better explained as cultural lag. The North and Middle West, interested in manufacturing, favored Republican high tariffs; the South, with a traditional stake in the export of cotton, was Democratic and opposed to protection. (Middle Western agriculture was ambivalent: interested in exports of grain and lard, but worried about farm imports from Canada and Australia.) But the economic base underlying these positions was changing. In the Middle West, manufacturing had risen through mass production to an export position, which would benefit from freer trade; in the South, especially North and South Carolina and Georgia, the cotton-textile industry, moving in from New England in the 1920s and 1930s, gave many states a greater interest in cotton textiles than in cotton production. Not until after World War II did the South begin to qualify its doctrinaire espousal of free trade; and a Senator such as Robert Taft from Cincinnati, a city exporting machine tools to the world, never altered his inherited protectionist views in the economic interests of his constituents. Detroit in the 1920s was rising to a position like Manchester in Britain during the first half of the nineteenth century. It was slow in drawing policy consequences.

IV

To Herbert Hoover, the Depression which started in 1929 was the fault of Europe, and there was little that the United States could or should do internationally to remedy it. The Hawley-Smoot Tariff of 1930 was a domestic measure, undertaken to relieve agriculture. If the movement to raise tariffs spread beyond farm products to manufactures, and if tariff rates were raised to unconscionable levels, as 34 protesting nations abroad contended, Hoover nevertheless regarded it as a private U.S. matter. He did not answer widespread criticism that creditor nations should not raise tariffs on the ground that this prevents debtors from paying interest and amortization—an oversimplified and dubious doctrine, as it happens. (Tariffs under stable conditions raise income which spills over into further imports, to change for the most part the structure rather than the total quantity of imports.) Mostly, however, he failed to see the Hawley-Smoot Tariff as the major action in setting off a retaliatory tariff war of the beggar-thy-neighbor sort. World trade shrank in a declining spiral, as the quantities and prices of traded commodities continuously fell.

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[7] Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960*, Princeton: Princeton University Press, 1969, pp. 298–99.

[8] C. P. Kindleberger, *The World in Depression, 1929–39*, Berkeley: University of California Press, 1973, pp. 136–38.

The impact of the Depression in the United States ricocheted abroad in other ways. The United States stopped buying as much abroad and also stopped lending, thus cutting down on available foreign exchange in two ways. In British lending of the nineteenth century, foreign and domestic investment alternated: when the periphery lost receipts from exports, it was able to borrow. This was not a matter of policy, but of the action of market forces. In the United States lending policy was minimal. The Department of State had asked Wall Street to notify it of impending bond issues so that it could indicate if there were foreign-policy objections to particular loans. And the Johnson Act of 1930 stipulated that borrowers in countries in default on war debts could not have access to American capital markets, but this manifestation of congressional irritation on war debts should not have had any effect on major borrowers in Germany, the Dominions and Latin America that owed no war debts. Nevertheless, there was nothing that President Hoover could do to stimulate lending. It picked up in the second quarter of 1930 and then mysteriously collapsed.

In 1931, Hoover acceded belatedly to the suggestion for a moratorium on war debts and reparations; failed to take vigorous action to stop the financial runs on Austria, Germany and Britain, partly because of the necessity of agreeing with France; and ignored the strongly deflationary impact of the appreciation of the dollar—flowing from the depreciation of the pound sterling—on U.S. farm prices, banks in agricultural areas, and ultimately on banks more generally. Mr. Hoover had an enviable record in international affairs as mining engineer and as administrator of food relief for Belgium immediately after the war. His vision of interrelations among world economies under stress, however, was a limited one, and contrasted sharply with the broader view espoused by such Eastern establishment spirits as Dwight Morrow, a Morgan partner.[*]

Foreign economic policy suffered in 1932–33, when Hoover was unable to govern and Roosevelt refused—after the election but before his inauguration—to make decisions before he bore responsibility. With the Inauguration and the Bank Holiday, the "Hundred Days" involved a hectic series of decisions, largely on domestic programs—the Agricultural Adjustment Act, National Recovery Act, Thomas

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[*] See Joseph S. Davis, *The World between the Wars, 1919–1939: an Economist's View*, Baltimore: Johns Hopkins University Press, 1975, p. 421: "Personalities counted heavily and clashes of strong personalities were recurrent sources of intranational and international friction. There were never enough harmonizers (such as Morrow, Salter, D'Abernon, Stamp, Monnet and Stresemann) to help divergent minds meet."

Amendment, and the like. Within the Roosevelt Administration an intense struggle took place between the Middle Western views of advisers like Moley and Tugwell, and the Eastern-Southern retinue of Norman Davis, James Warburg and Cordell Hull. The former dominated, and problems like the clash between agricultural imports and measures to raise domestic prices, or the World Economic Conference (scheduled for 1932 and postponed to 1933), were put to one side.

The dollar was allowed to depreciate, and when the World Economic Conference finally met in June 1933, President Roosevelt torpedoed it by refusing to accept an agreement worked out by the experts in which Britain would stabilize the pound, Germany would renounce foreign-exchange control adopted in the summer of 1931, France would give up import quotas undertaken because of the ineffectuality of tariffs in keeping out foreign grain, and the United States would stabilize the dollar. The conference broke up in early July after concluding only a small agreement sought by Senator Pitman of Nevada for the silver interests. Its consequence was to divide the world economy further. The Gold Bloc of Continental Europe—France, Belgium, the Netherlands and Switzerland—drew together, as did the sterling area of most of the British Commonwealth and a few countries closely allied to Britain in trade. At the center of the sterling area was the preferential trade system of the Commonwealth worked out at Ottawa in August 1932.

Under Roosevelt, however, the inward-looking phase of American policy did not last long. At the end of 1933 he and Secretary of the Treasury Morgenthau had lost interest in daily changes in the gold price and were exploring a stabilization agreement with the British. Failing this, in February 1934 they fixed the dollar in terms of gold anyhow, at $35 an ounce.

In the same month Roosevelt gave Cordell Hull—the Secretary of State with a fanatical preoccupation with free trade—the green light to introduce a bill to lower tariffs on a bilateral basis. (Under the unconditional most-favored-nation clause the country had adopted in the 1920s, reductions negotiated with one country would be extended to others.) This was signed into law in June 1934. Within the half-decade to 1939, 20 agreements were concluded, the first with Cuba in August 1934, the most important with Britain in November 1938 and two with Canada, in November 1934 and November 1938.

An awakening interest in foreign policies, both political and economic, also led the United States to normalize relationships with the Soviet Union, from which recognition had been withheld since the Revolution of 1917 on the ground that successor governments are required to assume the debts of their predecessors, which the Soviet government had been unwilling to do. Trade relations with the Soviet Union, which had been minimal to this time, expanded somewhat with the establishment of Soviet official buying agencies in the United States, but the development was not substantial.

To the South, Roosevelt initiated a Good Neighbor Policy, without, at that time, much in the way of specific content. It was, however, a significant change both from the Monroe Doctrine, which had been directed mainly against European intervention, and from the imperialism of the turn of the century—the imperious use of the Marines to collect debt service from Nicaragua and Haiti, and unquestioning support for such companies as United Fruit and Mexican Eagle in their operations in the area.

Of multilateral and more general import was the Tripartite Monetary Agreement entered into on September 26, 1936. The occasion was the collapse of the

Gold Bloc, and especially of the French franc. The agreement provided a convenient cover under which the franc rate would be adjusted as part of an international exercise to provide exchange-rate stability. The engagement was limited: each country undertook to hold currency of the others without conversion to gold only for 24 hours. Symbolically, however, it marked an initiative by the United States in stabilizing the world economy. A separate similar exercise was undertaken in the spring of 1937, when the country refrained from changing the price of gold under pressure of the "Gold Scare" in which foreign private citizens and even a few central banks sold gold for dollars against the prospect of a reduction in the gold price. At some inconvenience, but no real cost, the U.S. Treasury held to the $35-an-ounce price, buying all gold that was offered to it and sterilizing it by raising reserve requirements and open-market operations.

Exactly what forces produced the change in American economic policy in 1933 and 1934 from isolation to involvement is not self-evident. Elements contributing to the shift included recovery from the depths of the Depression that had focused attention on domestic concerns, perhaps a shift of the President's interests from the Populist position adopted during the campaign and especially during the first exciting days in office to his more comfortable views as an Eastern establishment figure; growing preoccupation with the threat to world peace posed by dictators in Europe and the Far East, with a natural extension of interest from foreign policy to foreign economic policy; and, as already noted, familiarity and boredom with the esoteric games of changing the gold price to alter the exchange rate to raise U.S. commodity and share prices—especially after July 1933, when the technique ceased working. The circumstances and the personality of the President played a large part. More fundamental reasons would argue that the inward-turning of 1928 to 1933 was a deviation from trend, to which 1934 marked a return.

A European effort to regularize the international economy through agreement was initiated in 1937, leading to the preparation of a report under the direction of Paul Van Zealand, former Prime Minister of Belgium. Appearing in 1938, the report was ignored under the stress of recession in the United States, which had struck in September 1937, and of rapidly expanding rearmament in a Europe threatened with war.

Foreign economic policy records two episodes associated with the rising threat of war. In 1935 Italy launched an unprovoked attack on Ethiopia, and the League of Nations somewhat diffidently called for sanctions on the delivery of oil to Italy. Though not a member of the League, the United States nonetheless supported the campaign and urged American oil companies to stop selling oil to Italy. The large companies complied with the request; unfortunately a rapid increase in Italian oil prices induced the entry of a host of single-ship operators who escaped control and delivered to Italy at Eritrean ports more gasoline than it had previously imported.

And, in 1938, the United States took another economic-warfare action of its own in cutting off the export of scrap iron and steel to Japan, foreshadowing a cutoff of oil in the summer of 1941, which helped precipitate the decision of Japanese military leaders to make war on this country.

As war began in Europe in 1939, President Roosevelt honored more in the breach than in the observance the Neutrality Act of 1939, passed by the Congress in an effort to keep this country uninvolved; got around the Johnson Act of 1930 by interpreting it to apply only to private lending in the United States, and not to government advances to foreign borrowers; and finally, after the tide of battle had turned against Britain in 1940, and well before the United States had entered the war, enacted Lend-Lease in February 1941 as a way to transfer resources to its Allies without piling up the kind of recount of war debts that had occurred after World War I. A special feature of Lend-Lease was the Hyde Park Agreement of December 1941 with Canada, under which supplies and components needed by Canada for incorporation in matériel produced for Britain would be lend-leased to Britain, but delivered to Canada. This had the effect of keeping Canada off the books as a recipient of U.S. assistance. Before U.S. entry into the war, the United States and Canada established a Joint Economic Committee of the two countries to expedite cooperation in mobilization and in planning postwar reconstruction. When the United States did enter, joint boards were established with Britain in a number of economic areas, parallel to the military arrangements, and especially in procurement, shipping and food.

As one condition of qualifying to receive assistance, the Lend-Lease agreement required that the recipient promise to cooperate with the United States in the design and construction of a liberal postwar world economic system. In the summer of 1941, President Roosevelt and Prime Minister Churchill met aboard a warship off Newfoundland. In addition to strategic planning of military operations, they drafted an Atlantic Charter that laid down broad principles for the establishment of a liberal economic system after the war.

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In the Department of State, Leo Pasvolsky was assigned the task of preparing postwar plans for U.S. policy for the world economy. No government agency waited for such plans to emerge. The Treasury moved ahead with monetary reconstruction. In 1943 the Agriculture Department organized a Hot Springs meeting on food. From the Department of State came a design for world trade. The United Nations was to be assigned a watching brief over world economic policies generally, but with operating responsibilities assigned to specialized agencies.

These responsibilities are indicated by the substantives used in the titles of the major world organizations. First in functional order was the United Nations *Relief* and *Rehabilitation* Agency (UNRRA). Relief was the provision of foodstuffs to hungry allies after the war. Rehabilitation consisted of restocking. The Bretton Woods bank was the International Bank for *Reconstruction* and *Development* (IBRD), beginning with the reconstruction of war damage, and going on to the development of countries which had not begun industrialization. The International *Monetary* Fund (IMF) would deal with exchange rates, balances of payments and the financial side. An International *Trade* Organization (ITO) was to lower restrictions and set rules for commerce. The world order would be pieced out with lesser specialized agencies in health, meteorology, aviation and the like. While these institutions were being brought into being, the United States enlarged by $3 billion the lending capacity of the Export-Import Bank, established in 1934 primarily to assist exports and employment. Of this, $1 billion was initially set aside for a loan to the Soviet Union, pending settlement of Lend-Lease and other wartime financial arrangements. The loan failed to materialize for reasons that have never been made clear but that undoubtedly reflected the influence in that first Truman year of such men as James Byrnes and Leo Crowley.

As the country least hurt by war, the United States took a major role in contributing to UNRRA, stocking it in large part with surplus army provisions. A first *tranche* of $2.75 billion was to be followed by a second equal amount in August 1945. A number of countries raised objections. Canada chose to give its aid directly to Britain. Britain refused to join unless the feeding of Austria and Italy were shifted from military aid (in which its share was 50 percent) to UNRRA (in which it was 8 percent). The U.S.S.R. insisted that while it was a donor, to the extent of 2 percent, and hence not entitled to receive aid, the Ukraine and Byelorussia should be recipients. With one vote in 17, the United States reluctantly agreed to take over the Canadian 6 percent, thereby increasing the U.S. total from 72 to 78 percent, and to add recipients, thus diluting the aid provided for others. It resolved thenceforward to render aid bilaterally, rather than through multilateral organizations that lacked objective principles of aid-giving and were subject to logrolling.

The need for relief, rehabilitation and reconstruction had been seriously underestimated in the postwar period, on several scores beyond the dilution mentioned. In August 1945, on the surrender of the Japanese, Lend-Lease was stopped precipitously—a decision made by President Truman and Secretary of State Byrnes en route to the Potsdam negotiations without consulting their economic advisers. The decision was based on commitments made to the Congress in the Lend-Lease legislation process, commitments which they both, as former Senators, felt bound to honor. In his *Memoirs* Truman recognized this as a serious mistake and put most of the blame on Byrnes. In addition to this blow, price control was removed in June 1946, so that a given amount of dollars went less far. Military destruction had been overestimated, but a serious underestimation of greater significance was made of the under-maintenance of capital, using up of stocks, and wearing out of consumers' inventories of clothing and household goods. Post-UNRRA direct assistance by the United States was undertaken in the strenuous conditions of 1946, along with the use of IMF and IBRD loans for emergency consumption rather than the reconstruction and balance-of-payments purposes for which they had been established.

The British position had been alleviated temporarily by an Anglo-American Financial Agreement which provided for a $3.75 billion loan to enable Britain to resume convertibility of the pound. During the early debates on postwar policy, John H. Williams of the Federal Reserve Bank of New York and Harvard University had opposed the IMF as a universal device for restoring world monetary health, and argued an opposing "key-currency" principle in which certain major monies, around which pivoted large currency areas, would be restored to health separately and in sequence. As often happens when alternative courses are debated, both the IMF and the British key-currency loans were adopted. The initial amount of the loan was cut from $5 billion, perhaps a political necessity since the measure ultimately passed the Senate by only one vote. (The vote ratifying the agreement in Parliament was also close, as the Opposition contended that the conditions of the United States in granting the loan were too onerous.) As it worked out, the British were unwilling or unable to negotiate the write-down or funding of accumulated sterling balances or to institute effective controls on the export of capital. In consequence, the convertibility of sterling instituted in July 1947 lasted only six weeks before the bulk of the loan was gone.

Relief for the defeated countries of Germany and Japan was a low priority for the Allied governments but not altogether ignored. U.S. policy toward Germany was complicated by joint occupation with Britain, France, and especially the Soviet Union; in Japan, where the United States was the sole occupation power, decision-making was easier. U.S. policies called for avoiding the connections between reparations, war debts and foreign lending which had held after World War I. At Potsdam the United States insisted that the four zones of occupation be treated as a single economic unit, and that the first charge on current German production from all zones be commercial exports necessary to pay for imports, rather than reparations. The point was to prevent some occupation powers from taking out reparations from current production while others were obliged to feed the population in their zones. Reparations, it was agreed, should be paid through removal of capital equipment from Germany that was in excess of the peacetime requirements of the German people.

Strong forces in the United States pushed for restrictive and repressive policies in Germany. Under a Joint Chiefs of Staff directive (JCS 1067), drawing its inspiration from the so-called Morgenthau Plan, the U.S. commander was instructed to take no steps to revive the German economy beyond those necessary to prevent such disease and unrest as might endanger the occupation forces. In July 1945, however, French, Belgian and Dutch need for coal made it necessary to try to restore German coal production for export. By fall, Poland was asking for spare parts for German machinery in Silesian coal mines. It proved impossible to reach sustainable agreements with the Soviet Union on what they could remove from Germany as war booty, restitution and reparations, and in particular the Soviet Union did acquire foodstuffs from the eastern zone of occupation while Britain and the United States were feeding their zones in the west. Gradually the zonal arrangements broke down, and so did arrangements for reparation removals. The economic importance of Germany in the revival of Europe became clear. By September 1946, the Secretary of State made a speech at Stuttgart outlining a more positive policy of German economic recovery in a European setting.

Governing and feeding Germany were further complicated in the fall of 1946 by a British government approach to the United States, stating that the country was unable to continue to pay the import bill for its populous zone of occupation including the Ruhr. A Bizonal Agreement in December 1946 provided that the two zones would be treated as a unit and that the United States would advance the bulk of the sums needed for imports. Later the French joined, with the smaller, self-sufficient zone.

Continued British economic weakness led in February 1947 to that country preparing to give up its support of Greek resistance to domestic and foreign infiltrating communist forces, and to another substitution of American for British responsibility, in the Truman Doctrine, for military aid to Greece and Turkey. Much of the assistance, especially in roads in Turkey, served a double economic and military purpose and could be said to be the beginnings of U.S. aid to economic development. Its main purpose was military.

A harsh winter in Europe in early 1947, which burst pipes, blocked transport, flooded fields and rotted seed, threatened economic breakdown throughout Western Europe. Funds made available from the United States under the British loan, UNRRA relief and post-UNRRA aid were nearing exhaustion. Political stalemate with the Soviet Union over German questions, plus economic disintegration which overwhelmed the stopgap measures applied to separate countries, produced in Washington a strong desire for a new, cooperative, enlarged effort to achieve recovery in Europe. On June 6, 1947, Secretary of State George C. Marshall gave a speech outlining a European recovery program. He proposed that Europe should prepare a program of recovery which would involve the cooperation of all the countries participating, including Germany, and that with it as a basis the United States would undertake a new coordinated program of aid.

The invitation was extended to all the countries of Europe, including the Eastern bloc and the Soviet Union. Foreign Minister Molotov met with Foreign Ministers Bevin and Bidault in Paris but refused to participate unless the United States handed over a fixed sum first and let the countries of Europe use it in their own way. Following this refusal, Czechoslovakia and Poland, which had previously accepted the invitation to participate, reversed their decisions. When the three western zones of occupation of Germany went ahead with monetary reform in their own zones and in their districts of Berlin, in June 1948 as the Marshall Plan got under way, Soviet military forces blockaded land access to Berlin, effectively dividing the country. Western links to Berlin and the Berlin economy were maintained only by airlift.

Considerable ambiguity attached to U.S. views as to what was meant by a European recovery plan. In the eyes of many, it meant the extension to Europe as a whole of French techniques of *planification* begun with the Monnet Plan of 1946. To William L. Clayton, Under Secretary of State for Economic Affairs, and Lewis W. Douglas, Ambassador to the Court of St. James, it implied return to liberal principles of free markets. The preamble to the European Recovery Act of April 1948, and Paul G. Hoffman's speech of October 31, 1949, emphasized the reproduction in Europe of a vast continental market like that of the United States. The United States applauded when in May 1950 French Foreign Minister Robert Schuman proposed a measure of functional integration in the European Coal and Steel Community. It supported a European Payments Union. At the same time, it maintained pressure for the elimination of quota restrictions, which largely discriminated against U.S. exports in the interest of economizing on dollars, and worked more broadly for the adoption of generalized rules for trading in the draft Charter of the International Trade Organization (ITO) signed at Havana in 1948.

As indicated earlier, the ITO was to be a cornerstone of a worldwide system of liberal trading, setting down procedures for lowering tariffs on a multilateral basis, providing for freedom of investment, limiting restrictive business practices, and establishing machinery for handling necessary exceptions and adjustments. Countries emerging from the difficulties of war, and those embarking on programs of development, insisted on so many exceptions to the general rules, against quantitative restrictions and in favor of low, nondiscriminatory tariffs, that the Congress of the United States judged the document worthless. The United States would be held to the general rule; other countries would claim avoidance under saving clauses.

The Department of State ultimately did not submit the treaty to the Senate for ratification. Instead, it concluded an executive agreement, not requiring congressional assent, the so-called General Agreement on Tariffs and Trade (GATT) that embodied the principal clauses of the ITO, and provided for a small staff to supervise operation of the agreement in Geneva. Under its aegis, a series of multilateral reductions of tariffs was negotiated in the postwar period, from the Geneva Round in 1949 to the Dillon, Kennedy and current Tokyo Rounds. The Kennedy Round negotiated after 1962 was particularly salient.

Help to developing countries was initially limited to the "development" aspect of the IBRD and Greek-Turkish aid. In his Inaugural speech of January 1949, however, President Truman included a Point IV aimed at this group of countries. This program initially consisted of technical assistance, especially in agriculture, education, and the planning of public works. As the 1950s wore on, it became increasingly evident that much more was needed, especially capital assistance. A euphoric mood developed that poor countries could all follow the development path of Britain, the rest of Western Europe, North America, and most recently Japan, and succeed in raising their standards of living. Needed were resolve on the part of local government and foreign aid in the form of goods, modern technology and effective management. Under the Republican regime of President Eisenhower, and later under Nixon, emphasis shifted from official aid to the role of American corporate investment in countries initially called "underdeveloped," then "less developed," and finally "developing." Both political parties put faith in the beneficent role of American food aid, under Public Law 480, designed to help developing countries and the American farmer, the latter by disposing of surplus stocks. Other groups were not slow in taking advantage of the opportunities afforded by foreign aid, shipping lines insisting on transporting it in American bottoms, suppliers that it be spent on or tied to American goods only. Even the Congress benefited through a provision that five percent of the local-currency counterpart derived from the sale of aid goods be set aside for American use, largely the building of embassies and the entertainment of junketing Congressmen.

Assistance was furnished through multilateral agencies and bilaterally. Under the former, there were U.N. programs: those of the IBRD and its subsidiaries—the International Development Association (IDA) for non-bankable projects, and the International Finance Corporation (IFC) to invest in private enterprise in developing countries. In time special regional banks were established, largely with American capital, in Latin America, Asia and Africa. In due course, aid to development was extended by other industrial countries after their recovery from the war. Development became an international concern of the Organization for Economic Cooperation and Development (OECD), which emerged under the Marshall Plan from the original Organization for European Economic Cooperation (OEEC)—enlarged to include the United States, Canada, Australia and Japan. Its Development Assistance Committee (DAC) gathered statistics, compared national efforts, and urged increased aid.

Foreign aid was assisted in the early stages by the cold war. South Korea, Taiwan and Israel were especially favored by U.S. aid because of their strategic importance. Cuba got no aid from the United States, a great deal from the Soviet Union. At the last minute Secretary of State John Foster Dulles backed away from building the Aswan Dam in Egypt and let the Soviet Union take on the project. Bilateral aid was divided into military and economic, and the latter was often not that much different from the military aid in its implications for political alignment and support.

Discouragement with foreign aid set in during the 1960s. Economic development was stubbornly slow. Aid achieved little growth, less gratitude, few political objectives. The Hickenlooper Amendment, which required withholding aid when American property was nationalized without prompt, adequate and effective compensation, proved ineffective. Internationalists deduced from these circumstances that foreign aid should be multilateral, not bilateral. Those not so internationally minded thought there were better things to do with the money at home. Détente with the Soviet Union lessened the urgency of helping the developing countries. Aid still could be used in particular political impasses to grease a solution, help for both Egypt and Israel, or support for Rhodesia. But the moral commitment eroded.

Last in this catalog of areas of foreign economic policy was the monetary field. The IMF went into hibernation after the start of the Marshall Plan, except for a series of small operations, largely the furnishing of advice to developing countries, since the major financial needs of developed countries were covered by the Marshall Plan and by the substantial volume of dollars earned by Japan as a staging area for U.S. troops in Asia.

As recovery progressed, however, the countries of Europe and Japan began to accumulate foreign-exchange reserves, a process which continued after Marshall aid ceased. Some insignificant amounts of dollars were converted into gold in the 1950s. The greatest part was held in deposits in U.S. banks and in U.S. Treasury bills. The country became banker for the world, spending abroad, investing, lending, furnishing assistance in amounts which exceeded the dollars earned through exports of goods and services. Accumulation of dollars by foreign countries began to be regarded as a deficit in the balance of payments of the United States, and was a matter of concern to President Eisenhower in the closing days of his term of office, and to Presidents Kennedy and Johnson from 1960 to 1968. Gradually the country's economic preoccupations shifted from the rest of the world to the international position of the United States.

VI

Immediately after the war, the French economist François Perroux wrote of the United States as a dominant economy; i.e., its every action affected the rest of the world, but it was not in turn called upon to react to events outside.[10] A recent English observer, seeking to make an elusive distinction between "hegemony" and "leadership," characterized the role of the United States in international economic affairs in the 1950s and up to the middle of the 1960s as "hegemonic."[11] The decline in dominance was visible about 1960.

One view holds with hindsight that the shift from preeminent concern in foreign economic policy for the public international good began with the permanent exception sought by the United States in 1955 to the rule against quantitative restrictions in GATT for its agricultural products.[12] U.S. support for freer trade in agricultural products is highly selective: it favors freer trade in export products such as grain, oil seeds and meal, citrus fruit, poultry and tobacco; and opposes it in dairy products, meat, rice, sugar, cotton and wool, which are on its import list.[13] Farm groups have long had power in legislatures well beyond their economic significance, as a result of Engel's law and cultural or perhaps political lag. Engel's law—that food consumption as a proportion of expenditure declines as income rises—means that farm groups are in continuous decline in the proportion of national income produced, of persons employed, and in votes. Political lag—until the Supreme Court one-man, one-vote decision in 1962 required state legislatures to be reapportioned on a regular basis—meant that the states retained control of the decennial reapportionment process and that farmers dominated it. This fact and the seniority system kept them in effective control of key legislation far out of proportion to their numbers or economic importance. Where farm groups led the way in insisting on domestic special interests over the interest of the economic system on a world basis, other groups—trade unions, industries, shipping, large corporations and the like—did not tarry in asserting their own interests. The executive branch often fought a rearguard action, yielding slowly in watering down the successive trade legislation, for example, with escape clauses, peril point provisions, the application of export quotas abroad, anti-dumping provisions, and exceptions to freer imports in the interest of national defense.

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[10] François Perroux, "Esquisse d'une theorie de l'économie dominante," *Economie Appliquée*, No. 2–3, 1948.

[11] Andrew Shonfield, "Introduction: Past Trends and New Factors," in *International Economic Relations of the Western World, 1959–71*, Vol. 1, *Politics and Trade*, ed. Andrew Shonfield, London: Oxford University Press, 1976, p. 33.

[12] T. K. Warley, "Western Trade in Agricultural Products," in Shonfield, *op. cit.*, pp. 345–47.

[13] *Ibid.*, p. 322.

The primary unraveling of the American dominance, hegemony or leadership in the world economic system, however, came in the monetary field, and had its roots in technical and political difficulties. The technical difficulties were those of understanding. The Bretton Woods system had strongly opposed flexible exchange rates on the basis of the 1930s experience of competitive depreciation. It permitted or encouraged control of international capital movements in the defense of a fixed exchange rate. At the end of the 1950s, members of the economics profession—prominent among them Yale Professor Robert Triffin—began to fear that the world money supply would prove inadequate. Gold production furnished only about $1.5 billion of additional reserves annually to the world, and much of this—ultimately all of it—went into private hands for industrial use and hoarding. Liquidity was furnished to the world by the U.S. balance-of-payments deficit, measured by the increase in dollar reserves by countries abroad. When the United States succeeded in correcting this deficit there would be insufficient liquidity to finance world production and trade. Observers like Jacques Rueff of France and Roy Harrod of Britain wanted to raise the price of gold; Robert Triffin recommended issuance of a new international money. Meanwhile, the United States sought unsuccessfully to correct its balance-of-payments "deficit" by halting capital exports through taxes on security issues, controls over bank lending, and restrictions on taking capital abroad by firms investing overseas—all to no or little avail. And countries like the United States and Germany conducted their monetary policies independently, without recognition that their money markets had been joined through the joining of each with the Eurocurrency market which had grown up outside the United States.

In retrospect it is clear that there were a number of errors of economic analysis in these views. First, it proved impossible to halt capital movements in most societies. Money is fungible and flows through many channels. To cut off one or two channels at a time will only increase the pressure on others and maintain the flow which, so long as there are enough conduits open, is impervious to the closing off of any one. Other temporizing devices worked out by the ingenious Under Secretary of the Treasury, Robert V. Roosa, such as issuing special bonds which guaranteed the buyer against exchange risk, or negotiating special offsets by Germany against American expenditure for the maintenance of its forces in Europe, were of little help, based as they were on the reasoning that the deficit in the U.S. balance-of-payments was a passing disturbance. Second, most of the deficit was a function of the fact that the United States was acting as banker to the world. Liquidity needs determined the deficit, rather than the deficit accidentally filling liquidity needs. This became less true in the final years of the Vietnam War after about 1968, and especially in 1970 and 1971, when the merchandise trade balance in the United States balance of payments turned adverse on an annual basis for the first time since 1894. The meaning of surplus and deficit in the balance of payments is different for a bank and for a bank customer. The United States was acting as a bank. The rest of the world represented customers. Third, when money markets are joined, as European markets were with those of the United States and Canada, monetary policies cannot be independently determined. In 1966 and 1969–70, U.S. attempts to tighten interest rates pulled a flood of money from Europe. The system ultimately collapsed in 1971 when the United States tried to achieve cheap money while Germany was seeking to raise interest rates. Dollars poured abroad and drowned the Bretton Woods system.

The Bretton Woods misconception about the possibilities of control of capital movements had another consequence. The IMF had been designed to fund cyclical —not persistent—balance-of-payments deficits on current accounts, not to handle capital flows. The amounts available were too small, even before postwar inflation, and provision of assistance was stretched out over time. The IMF was no help in a crisis on this score, and also because its decision-making procedures were time-consuming. A few steps were taken to modify IMF procedures to correct these disabilities. With convertibility in 1958, however, it proved necessary to provide a special fund for countries under speculative attack, called the General Arrangements to Borrow (GAB), organized by leading financial countries (the Group of Ten). A run on the pound sterling in March 1961 occurred while this machinery was being completed, and was met by an informal emergency loan to Britain on the part of a number of countries. This so-called Basel Agreement, led by the United States, was regularized in arrangements to swap claims on foreign central banks for foreign claims on domestic central banks, which were activated in subsequent foreign-exchange crises in Canada in 1962, Italy in 1963, and Britain again in 1964 and 1967. As the largest supporter of the agreement, the United States found it of little help when the crisis affected the dollar.

In 1965, under President Johnson and Secretary of the Treasury Henry H. Fowler, the United States decided that it would be useful to adopt Triffin's suggestion of a new international reserve asset, but to do so in addition to gold and dollars, not as a substitute for them. The reason was that gold was going into hoarding and was not available for adding to world liquidity. The world had accumulated $25 billion or so of dollars and was wary of taking more. To increase world liquidity at some appropriate rate, therefore, it was believed necessary to add a third asset. Subconsciously, perhaps, the American authorities were more interested in restoring the U.S. ratio of reserve assets to foreign liabilities than they were in global liquidity. They failed to recognize that Special Drawing Rights for the United States meant SDRs for all.

An asymmetric or hierarchical system in which the United States acted as banker for the world; the ultimate provider, along with military security, of a market for distress goods; a source of goods in short supply, and of capital requirements; a monitor of the system of international money including the pattern of exchange rates; and a lender of last resort in crisis—such a system may be possible to contemplate in economic terms. By the 1970s it was no longer in the cards politically. Attacks on the system came from many sources: from within the

United States where some industries, and most labor unions, joined farmers in asserting the primacy of their parochial interests over the international interest of the system; from radicals who insisted that U.S. professed action in the international interest was in fact a selfish imperialist one; from a stronger Europe, led by France and followed somewhat reluctantly by Germany, Britain and Italy, claiming an enlarged share of decision-making; and from the developing countries. It was largely the domestic interests in the United States that led Secretary of the Treasury John Connally in August 1971 to insist on devaluation of the dollar, to break the pressure on import-competing industries, and which led President Nixon in August 1973 to embargo the foreign sales of soybeans, thus administering a second shock to Japanese economic interests and sensibilities. The French voice in international economic matters was larger than their economic specific gravity for a number of reasons: because they mobilized the European Economic Community (EEC) in support on occasion; because they were willing to exit—converting dollars to gold ostentatiously in 1965, withdrawing from NATO, refusing to vote in EEC until they got their way over agricultural prices.

The developing countries had organized themselves as the Nonaligned Nations at Bandung in 1955 and as the Group of 77 in the United Nations Conference on Trade and Development (UNCTAD) in 1964, and began gradually offering an alternative view of how the international economic system should be managed. In the United Nations, making effective use of a large majority because of the numbers of newly independent states, the developing countries gradually fashioned a position which differed from the free-market one professed by the United States in a long list of economic functions, from trade to commodity prices, assistance for balances of payments, foreign aid, the multinational prices, assistance for balances of payments, foreign aid, the multinational corporation, and the issuance of international liquidity. They denounced the conception of a liberal system as neocolonialist, continuing economic subjection after political independence had been granted, and opposed it with a list of demands packaged as the New International Economic Order. The success of the Organization of Petroleum Exporting Countries (OPEC) in converting a political embargo into a drastic price rise in oil in December 1973 in the wake of the Yom Kippur War raised expectations of the developing countries in their demand for a share of SDRs, and their demand for generalized preferences for manufactured exports of developing countries in industrialized nations. Secretary of State Henry Kissinger initially reacted to this importunism by ignoring it. Gradually, however, he began to take a hand, seeking a way to find an accommodation with the developing countries. At the Seventh Special Session of the General Assembly in September 1975, he went along with a proposal for a Committee of Twenty, to meet at Paris, with four committees, to prepare detailed plans. And during 1976 a genuine bargaining process seems to have been under way, in Paris, at the Jamaica meeting on monetary matters, at the UNCTAD Conference in Nairobi in May—as well as in the related area of the Law of the Sea Conference, where a deadlock between developed and developing countries persists on the issue of how to exploit and distribute the proceeds of the mineral resources of the ocean seabeds.

VII

Public goods are those the consumption of which by any one person or consuming unit does not diminish the amount available for the consumption of others. Short of some level of congestion, roads and parks furnish an example.

Other types of public goods are law and order, clean streets, economic stability.

Public goods are difficult to get produced on a voluntary basis because it is in no one person's interest to undertake the expenditure of time, effort or money to do so. And, if they are going to be produced, the individual can enjoy them without payment, as a free rider. Hence, public goods are notoriously underproduced. They must be furnished by government, and even then sectional or group interests may politick against their production on the ground that *their* costs exceed *their* benefits.

In the international economy, there is no government to produce public goods. Certain international agencies are endowed with powers to discharge certain functions. For the most part, however, international public goods are underproduced unless some countries take on a leadership role, cajoling, persuading, arm-twisting other countries to take their appropriate shares of the cost. There can be stalemate: at the 1927 World Economic Conference under the auspices of the League of Nations, all countries, including the United States which attended as an observer, agreed to lower tariffs, but no country took action. All waited for a lead which was not forthcoming. At the World Economic Conference of 1933, no country was willing to abandon its national plans for recovery for the possibly illusory hope of a joint recovery effort.

Without leadership, international public goods are underproduced. With leadership there is the opposite danger that some country starts out believing that it is acting in the public or general interest and slips knowingly or unwittingly into serving its own ends exclusively.

The international economic system flourished, more or less, from 1870 to 1913 when Britain served as world economic leader. The public goods that it provided were a market for surplus or distress goods, a countercyclical source of capital, management of the gold standard that maintained a coherent set of exchange rates and coordinated macroeconomic policies, and the lender of last resort in crises. After 1913 Britain was unable to discharge these functions, and the United States was unwilling to. The Great Depression is largely ascribable to this gap.

Beginning about 1936 and with assurance during and immediately following World War II, the United States undertook to provide the public goods needed for world economic stability. Instead of the gold standard as cover, it had the United Nations and its specialized agencies. From the early 1960s, however, and increasingly from 1965 as the Vietnam War deepened, this country became less willing to act as a leader and the world became less ready to accept it in that role. Some of the U.N. agencies can go on without strong national initiatives, notably the IBRD. Most cannot. France is prepared to assert a claim to leadership, with the help of its EEC partners. It receives limited support. One or two voices have been raised in favor of a duumvirate or a triumvirate of the United States and Germany, or the United States, Germany and Japan. Quite apart from grave doubt as to whether the interests of such a pair or trio of countries could be harmonized sufficiently, there are questions first whether either Germany or Japan would be willing—up to now they prefer "loyalty" to "voice"—and whether the rest of the world would accede in such an arrangement. On all three counts, the prospects appear slim.

The New International Economic Order, calling for developed countries to accede to developing countries' demands on the ground of historical equity, seems to this observer utopian. Equally so is the possibility of negotiating on a long-run basis a giant "package deal" covering aid, preferences in trade, rights and duties of multinational corporations, international commodity stabilization, the "link" for the issuance of SDRs and the like. When principles are rejected, ad hoc arrangements may take their place but are unlikely to have much staying power. The universal historical record of failure in commodity agreements originates in the fact that while buyers and sellers may be content at any one time, at a later date when the agreement comes up for renewal, the price in the open market has changed and one or the other is dissatisfied. Complex package deals appeal to the diplomats, and the historical record contains a number—like the Congress of Vienna—that have demonstrated survival value. Most have not, nor have such deals in the economic field.

What then is ahead? Since 1971, despite inability to agree on the international economic system, the world has managed to avoid the beggar-thy-neighbor policies of competitive tariffs and competitive exchange depreciation which gave us the 1930s. Instability has been avoided though stability has not been assured. The nationalistic response to the oil embargo of November 1973—Operation Independence and end-runs to Tehran to assure national supplies of Iranian oil—has subsided without doing particular damage. But the world is far from agreement on a system, accepting it as legitimate, and responding to the cajoling or arm-twisting of a leader-enforcer. Moreover, the United States is the only candidate for the role visible on the horizon, and whether this country would be willing or acceptable—absent the charisma of a Roosevelt or a Kennedy—is very much in question.

What might such a system consist of? To a conventional liberal economist, the answer is relatively straightforward. It should be a market system on the whole, but with market solutions modified when they become intolerable, i.e., when goods are very scarce or so abundant as to threaten livelihoods. This does not mean commodity agreements so much as some provision for stocking grain against a repetition of 1974, some industrial materials stockpiling, but primarily international action to maintain world income in depression. Tariffs or quotas would be acceptable only on a disappearing basis, to moderate but not to forestall adjustment. A multilateral agency would be established on the multinational corporation, not to handle compensation for nationalization problems, on which no meeting of minds is likely, but to cope with questions of antitrust, trading with the enemy (whether the policies of one country in this area may intrude into another through foreign subsidiaries of domestic corporations), double taxation, tax evasion, corruption and the like. The OECD is the obvious locus of such an agency today, but it should be open to other countries, as they perceive it in their interest. The OECD should also be the setting for coordination of macroeconomic policies, once discussed by Working Party No. 3, but lately fallen into desuetude. DAC in the OECD should continue to preside over aid, though the function needs a greater stimulus than the example-setting efforts of Sweden, Norway and Canada seem to provide.

The most sensitive area is that of money. At the moment, fixed exchange rates have been rejected in favor of flexible exchange rates, but sentiment seems to favor such management of flexibility as approaches fixity. A return to the dollar standard, a return to the gold standard, or the development of a full-blown SDR standard each seems unlikely. The Eurocurrency and the Eurobond markets are private organizations, escaping national and international restraint. Darwinian

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evolution seems inescapable in this field, and is perhaps superior to Bretton Woods planning. It is possible, and even probable, that ad hoc international management of the Eurodollar and Eurocapital markets through combined open-market operations, led perhaps by the Bank of International Settlements, will provide the stability needed. In any event, the evolution is toward the internationalization of monetary policy. Monetary autonomy, like national military security, is a will-o'-the-wisp in an interdependent world.

In all these matters, it is useful to think of normal management of the system, and crisis management. Those in trouble will think the system always in crisis. This view must be resisted. Yet the rules applicable to market forces, discrimination, exchange control, foreign aid and the like which hold in normal times may have to be set aside in a true crisis. This poses a dilemma. Readiness of the system to cope with crises reduces discipline in normal times and increases the frequency of trouble. The knife-edge must be negotiated.

The United States must be prepared to contribute to the public good of management of the international economic system in the long run, and to respond to crises, applying different rules and standards to each, striving not to let the one corrupt the other. That is difficult enough. This country must at the same time associate the other nations of the world in this task in ways that are not subject to entropy and decay. It is a tall order.

U.S. Position on International Economic Relations

Statement by Richard N. Cooper
*Under Secretary for Economic Affairs**

At the founding of the United Nations, and for most of the following 25 years, the focus of the international community has been on the maintenance of a peaceful world. In the period ahead, we must intensify our search for broadly shared, sustained prosperity and development. A more peaceful world will enable us to turn more attention to this goal. And our economic success can contribute to a more enduring and meaningful peace.

On behalf of President Carter, let me state our nation's firm commitment to do our part to achieve global prosperity, to help developing countries meet the needs of their people, and to work toward an international economic order based on the principles of cooperation and mutual benefit.

We live in a world where the prosperity of each nation depends upon the well-being of others—a world of economic interdependence. The growth of markets and economic activity in the developing world is an essential and growing element of the prosperity of the industrialized nations. The economic strength of the developed world is even more important for the development goals of the developing nations. This interdependence offers great challenges and, potentially, great benefits. Today I would like to elaborate on the task of managing the world economy for the common good.

Four conditions, in our view, are critical to a well-functioning world economy.

—*Economic growth*—Sustained economic expansion is the best means for meeting the needs of both the developing and the developed world. Economic growth need not bring with it unmanageable pollution, inflation, or social disruption. Economic stagnation, on the other hand, will surely lead to privation and a rising risk of world disorder.

—*Efficiency*—At each point in time, the world's productive capacity is finite. Our needs and desires greatly exceed it. To satisfy them, we must use what we have with a maximum efficiency. We cannot afford waste.

—*Equity*—The purpose of an economic system is to satisfy human wants. The rules of economic life and the distribution of economic products must be fair, both among and within nations, if the system is to function durably and for the common good.

—*Adaptability*—The growth of interdependence brings with it ever more complex and demanding problems of adapting our economies to changes. Normal economic fluctuations in one country affect its trading partners. Extraordinary changes in either the developed or developing countries, or abrupt changes in raw material or energy prices, reverberate throughout the entire world economy. Long-term changes in relative costs, such as those that occur with development, require adaptation both within and between economies. We must find ways both to avoid unnecessary economic disturbances and to make an orderly adjustment to necessary or desirable changes.

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*Made before Committee II (Economic and Financial) of the U.N. General Assembly on Oct. 14, 1977 (text from USUN press release 75 dated Oct. 14). Reprinted from Department of State Bulletin, v. 77, November 14, 1977 : 696–704.

The world's agenda for economic policy reflects these paramount concerns. We identify five elements: demand management, financial stability, the trading environment, flows of investment and technology, and actions to alleviate poverty.

The world is emerging from the worst recession of the last 40 years. For all nations, the first priority must be to continue that recovery. The major industrial countries bear a heavy responsibility for that recovery; the U.S. economy alone accounts for one-fourth of total world economic activity, and the five largest industrial nations account for half. Strong industrial economics, able to expand imports, are essential to realize the hopes of the developing world.

The other agenda items of the North-South dialogue, important as they are, cannot succeed without orderly industrial growth and an open trading environment. By the same token, the oil-producing countries have a special responsibility not to place new loads, via price increases, on what is at the present a fragile world recovery.

The United States is determined to see the world economy resume a high and stable growth rate. We expect to achieve nearly 6 percent real growth in 1977 and are committed to maintain strong growth in 1978.

Financial Stability

A stable but resilient financial framework is essential both for continued expansion and orderly development. The five-fold increase in oil prices since 1972 has created a unique balance-of-payments situation. The Organization of Petroleum Exporting Countries (OPEC) as a group, have been earning far more than their current expenditures. For the period 1974–76 this current account surplus approximated $140 billion.

If one group of countries has a current account surplus, the rest of the world must, by definition, have a deficit. Oil-importing countries cannot, as a group, keep their imports in line with their exports so long as the large surplus persists. Thus most of the countries of the world have had to accept a sharp deterioration in their current accounts. This problem has been especially difficult for developing countries, whose growth plans are heavily dependent on foreign exchange.

This novel problem has demanded new solutions, in both national policy and international institutions. If all the oil-importing countries were to try to avoid current account deficits, they would succeed only in restricting trade and deepening the world recession. Instead, responsible national policy calls for countries in strong financial positions to accept current account deficits for the time being while making a maximum effort to curb their oil imports.

As a result of its economic growth and rising oil prices, the United States is running a large current account deficit. In the economic circumstances of today, this deficit contributes significantly to sustaining world economic recovery. The full impact of our efforts, however, will be affected by the actions of other industrial economics and by pricing policies of the oil-exporting developing countries.

The international financial system has performed remarkably under the sudden strains that were imposed upon it by the current account surpluses of OPEC nations and by the world recession. Without adequate financing, the efforts of the oil-importing countries to adjust would have necessitated curtailing economic growth so abruptly that it would have caused severe hardships on their populations and might well have jeopardized the political stability of a number of countries in both the developed and developing worlds. An abrupt curtailment of economic growth in borrowing countries would also have completed recovery of the world system as a whole. Given the alternatives, the concept of borrowing to avert what would have been disastrous economic contradiction can be judged to be prudent. This is true even though a substantial portion of the borrowing was, of necessity, utilized for consumption rather than investment.

To insure that the international economic system functions effectively, deficit countries must continue to have the opportunity and incentive to devise policies that will adjust their economies at a pace consistent with the realities of their social, political, and economic situations. In this context, we believe the new supplementary financing facility proposed for the International Monetary Fund (IMF) will make an important and positive contribution not only in augmenting the capacity of the IMF to lend to its member states but also in assuring the world that a source of official financing exists on a scale sufficient to cope with any financial turbulence we are likely to encounter. We believe that the very existence of such official finance has a multiplier effect—encouraging a desirable and necessary flow of private finance.

Nevertheless, the resulting debt situation requires our close attention. Debt servicing problems have occurred in the past and can be expected to do so in the future. It is important that the international community be prepared to deal efficiently and equitably with such problems. Particularly in today's circumstances, there is a global interest in avoiding economic retrenchment by countries for reasons beyond their control. For our part, the United States will continue to cooperate in multilateral efforts to work out solutions which alleviate the debt problems of individual countries.

The Trading Environment

An open world trading system is essential to meet the needs of development and to assure the prosperity of the world economy. Already for most of the world's developing countries, and ultimately for all, trade rather than official assistance is the chief source of foreign exchange and the primary external engine of economic progress. Trade meets the tests for fruitful economic relationships: It can offer mutual benefits under fair rules contributing to economic growth, to the efficient use of limited resources, and to equity.

U.S. trade with the developing world illustrates the magnitude and benefits of trade. Close to half of our $120 billion in imports come from developing countries. Imports from non-oil developing countries have grown by $18 billion, or 300 percent, in the last 7 years. U.S. exports to the non-oil-exporting developing countries during the past 2 years totaled about 25 percent of total U.S. exports—approximately the same amount we sent to the European Community, Eastern Europe, the Soviet Union, and China combined.

We now have in the multilateral trade negotiations (MTN) the opportunity to take concrete and meaningful action in the trade field. We hope before the end of this year to table working texts for agreements regarding nontariff measures. And very early next year, participants in the MTN will be tabling their offers for tariff cuts. My government is determined to seize the opportunities offered us in the next few months to move toward substantial trade liberalization. We appeal to all participant countries, developed and developing, to contribute to the success of the Tokyo Round. Much is at stake for all of us.

Since developing countries in particular have much to gain from trade liberalization, we especially urge that they intensify their participation in the negotiations and contribute significantly to the final outcome. Benefits can be maximized if they are the product of shared contributions and obligations. Indeed, we believe that the gradual assumption by developing countries of greater obligations as their development progresses is important to the maintenance and growth of an open international trading system.

In a time of high unemployment it is hard to make decisions for future trade liberalization, but it is with the long-term goal in mind of economies joined together in an open international system that we should look at what we want from each other in the MTN and in reforming the trading system.

Many developing countries emphasize their need for preferential treatment. For our part, we will continue to support the generalized system of preferences for less developed countries, and we endorse special treatment for their exports wherever feasible and appropriate. We hope, however, that the developing countries will be imaginative and forthcoming in reducing their own measures of trade protection. While we conventionally speak of trade liberalization measures as "concessions" by one country to another, they may benefit the liberalizing country as much or more than its trading partner. When tariffs are reduced, there is a gain not just to foreign producers but to consumers in the home country and to the vigor and competitiveness of its industries.

Commodities

The current commodity negotiations, including the discussion of a common fund, show the benefits of the North-South dialogue—benefits which are both intellectual and practical. Through the discussions, we have come to a better understanding of the workings of commodity markets and the real possibilities for improvement. We have identified raw materials markets where price fluctuations may be excessive, leading to a disruptive cycle for producing countries and to an inflationary bias for the world economy.

My government believes that commodity agreements, properly conceived and managed, could stabilize prices which now are subject to excessive fluctuations. Under the auspices of U.N. Conference on Trade and Development (UNCTAD), we are actively exploring the possibilities for commodities agreements. We welcome the recent achievement of consensus on an international sugar agreement. We are prepared to join any commodity agreement which would be efficient and fair, and we support a common fund to facilitate the financing of buffer stocks arising from these agreements.

For some commodities, buffer stocks or other price stabilization measures may not be practical. We will work, together with interested countries and the world and regional development banks, for other measures of assistance—productivity improvement, research into new and improved uses, and market development diversification.

Commodity agreements alone cannot meet the problem of instability of export earnings among developing countries. The Compensatory Financing Facility of the International Monetary Fund is designed to help meet temporary balance-of-payments problems due to reduced return on exports. We believe this facility has played an important stabilizing role in the world economy, and we will join with other countries in reviewing proposals for any necessary improvements.

Energy

The world has begun a fundamental transition from an energy system relying on fossil fuels to one increasingly based on alternative energy supplies, including especially renewable energy sources. During this transition, we believe that cooperation between consumers and producers is essential on questions of conservation, supply, and research and development of new sources.

The Administration's energy program addresses our own domestic energy transition. With the program, the United States will reduce its dependency on oil imports and improve its balance of payments while contributing to price and payments stability in the world economy. The aim, through a combination of conservation and development of new supplies, is to reduce U.S. imports of oil to 6 million barrels a day by 1985 without impeding growth in our economy.

For the developing world, the price of oil is the key immediate question. While bringing higher revenues and accelerated development to the oil-producing states, the sharp increases in oil prices during the last few years have had devastating effects on the rest of the world, and especially on the other developing countries. Apart from the direct cost of oil imports, these countries have been hurt by the world recession aggravated by the oil price hikes. The oil-producing states, which also have ambitious development plans and in some cases large investments in the world economy, are themselves damaged by the inflation and recession which have resulted from abrupt price escalation.

Solving the energy problem will require measures of restraint and sacrifice by all the nations of the world; intense conservation efforts by oil consumers, especially the

United States with its extraordinarily high consumption; joint research and development efforts for renewable energy resources and for the peaceful use of nuclear energy; and restraint on the price of energy by producers.

We stand ready to help developing countries in energy development. The World Bank should be encouraged to devote some of its growing resources to the development of conventional sources of energy and to working out new modes of cooperation between host governments, private capital, and international lending institutions. Beyond that we are prepared to consider constructively any proposals for joint research on energy.

Food

The international trade in food provides the most telling instance of world interdependence. With a predictable range of prices and adequate reserves, the world agricultural economy can meet people's needs and adjust to the unpredictability of climate.

The United States is committed to reach an international agreement for wheat that will establish a system of nationally held reserves and will reduce extreme price fluctuation. We pledge our food abundance, through increasing quantities of food aid, to help food deficit countries in time of need.

The United States has ratified the agreement establishing the International Fund for Agricultural Development and has deposited its contribution [October 4, 1977]. We hope the institution can begin operations during this Assembly. We wish to encourage increased emphasis on agriculture by other development lending institutions, and we aim at an enhanced bilateral program, including a special and major effort to increase food production capabilities in the African Sahel.

Investment and Technology Transfer

Sustained growth in the developing world will require immense investment. The opportunities are abundant, both for the efficient use of international capital and for private investment on terms satisfactory both to the host country and the investor.

—Private bank and nonbank lending has increased enormously in recent years. This development is praiseworthy, and we support further prudent expansion of the use of private capital markets.

—The work of the international lending institutions has been bold, efficient, and indispensable. They provide a useful bridge between private lenders and public borrowers. We support their expansion.

—Investors and host countries alike can benefit from discourse and consensus on the conditions of private investment and the rights and responsibilities of both parties. We support internationally agreed guidelines for private investment. The United States continues to participate actively in the work of the U.N. Center for Transnational Corporations regarding a code of conduct. Reduced uncertainty and risk will make investment more attractive to all concerned. We believe, however, the guidelines should be legally binding only in areas where there is broad international consensus on the standards to be applied and where the subject matter is amenable to such agreements. For example, we support an international convention against illicit payments which would involve binding agreements concerning criminal law.

—Technological improvements have been the last cornerstone of mankind's progress during the last two centuries. It will continue to be crucial to economic development. We strongly support the transfer of technology in furtherance of development.

Much technological information is publicly available and our joint task is to develop the human capital required to receive and apply it. We have over 150,000 students from developing countries in our universities as part of this process, and we welcome that.

Some technological knowledge is proprietary, the result of the application of effort by private individuals and firms. Protection of their rights of discovery is essential to the continuing process of innovation. We support the effort to develop a voluntary code which would provide adequate protection of proprietary technology without creating anticompetitive conditions.

A code on technology transfer will serve no purpose, however, if its terms are so structured that the owners of technology have no incentive to engage in the costly process of producing new technology. We must all create a framework which reflects the mutual interest of owners and potential purchasers.

The ultimate objective should be the development of a self-sustaining, indigenous capacity for innovation and technological adaptation. This will require imaginative and flexible national policies and international endeavors. The 1979 U.N. Conference on Science and Technology for Development will provide an important focus for international cooperation. We offered to host the conference in the United States in order to give the conference the fullest benefit of American experience, including especially that of the private sector—universities, industry, research foundations, and the scientific and engineering communities.

Alleviation of Poverty

In addition to the concern of the United States for the effective management of the global economy, my country is deeply committed to the alleviation of poverty, at home and around the globe. President Carter is determined to see that poverty is substantially reduced in the United States and to see that the United States contributes significantly to improving the economic conditions of poor people everywhere.

The global problem of poverty must be attacked in two parallel ways: by accelerating growth in developing countries and by channeling more of that growth to meeting the basic human needs of the poorest people. Though domestic savings, private capital, and technology must play the key role in most countries, bilateral and multilateral concessional assistance will be critical to the development prospects of many countries.

The United States is committed to a substantial increase in official development assistance and to improving its quality and effectiveness. Our foreign assistance appropriation bill currently in the Congress contains provision for substantial increases in our concessional assistance. We are committed to contributing $2.4 billion, or 31 percent, to the fifth replenishment for the International Development Association. Along with other donor countries, we will support an increase in the capital of the World Bank to enable it to increase its lending in real terms. An increase in the capital structure of the International Finance Corporation has been approved. We will also continue to participate in providing resources for the regional banks.

But the effectiveness of the U.S. concessional assistance and that of other countries will depend on efforts by the recipient countries. These countries have the obligation to use these resources productively and to insure that the economic benefits derived from them flow to all segments of their population. For success in the longer run, moreover, high birthrates must be reduced as mortality declines and longevity increases.

In my government's view, the satisfaction of basic human needs in all countries must be an integral part of the international economic system. We should strive to help poor people everywhere to attain such basic amenities as food, health, and basic education. It is a strategy for development to enable the poor to engage in productive work, to contribute to and benefit from the growth of their country's economy, and to participate in decisions affecting their daily lives.

The needs of people are not restricted to economic ones. Basic human rights are as important as economic rights. The two are not separable. One without the other loses meaning.

Before the concept of basic human needs can be fully translated into reality, all countries must examine it in the light of their own experience. The United States will direct most of its bilateral assistance toward basic human needs, and we encourage other nations to do the same. We welcome the World Bank's new emphasis in this direction, although it still has an important role to play in traditional lending to improve infrastructure. We are pleased that in the U.N. General Assembly, several developing countries' spokesmen have endorsed the concept of basic human needs. In fact, the developing countries working through the U.N. system helped pioneer the concept of basic human needs. Clearly this is a shared goal and a shared responsibility—an aspiration and a program for men of good will in all nations.

Role of the United Nations

The United Nations has a distinctive and important role to play in the international economy. Negotiations on key economic issues are taking place in the functional bodies of the U.N. system. But the United Nations has acquired new importance in the economic field at a different level. Increasingly, the discussions in the General Assembly are focused on major economic questions. We all recognize that the fates and futures of all our countries are linked and that the solutions to economic problems must be seen as a whole.

Our efforts in the United Nations to devise a new global strategy should focus on a central problem; management of the complicated and integrated world economy is a joint responsibility of all nations. No one nation or group of nations can assume all of the obligations. No nation or group of nations can demand all the benefits. We all must do our share. Increasingly, each of us finds that attempts to pursue policies based on narrow self-interest can be thwarted by others.

Methods of making international economic decisions must change to reflect these new realities and to prepare for future changes in the international economic situation. We must find new ways to consult and coordinate our domestic and international economic policies. We must involve countries that were not meaningfully involved before. I hope that this General Assembly in its global economic dialogue can begin to build new means of economic policy consultation and coordination.

This General Assembly has three momentous tasks before it:

—To launch a new productive dialogue on world economic issues;

—To establish an approach to an international development strategy for the 1980's and perhaps beyond; and

—To consider the report of Chairman Dadzie [Kenneth K. S. Dadzie of Ghana] of the ECOSOC Ad Hoc Committee on the Restructuring of the Economic and Social Sectors of the United Nations System.

The manner in which this Assembly disposes of these issues will set a measure of effectiveness of the United Nations on economic matters.

The Paris Conference on International Economic Cooperation [December 1975-June 1977] was often described as the North-South dialogue—a process of negotiation between developed and developing countries. Let us now break with the past and take an important step beyond. Let the new dialogue not be between North and South but among all nations. Let us concentrate it on our mutual interests and concerns and on the management of a global economy whose progress affects us all and is the responsibility of us all.

Dialogue involves two distinct, though interrelated, tasks. The first is consultation—explaining to each other our ideas and positions. The second is negotiation—the processof arriving at concrete agreements. In both of these functions the U.N. system must play a key role. It is certainly the most fully representative forum for carrying on the global dialogue.

How should these two functions—consultation and negotiation—be divided among the various entities of the U.N. system? Clearly the General Assembly, the U.N. Economic and Social Council (ECOSOC), and other broad policy bodies are appropriate forums for airing and exchanging views. Clearly the more specialized bodies are appropriate for negotiations. But what is the bridge between the two?

Our delegations discussed these problems to some extent at the resumed 31st Session of the General Assembly. The Charter of the United Nations empowers the Assembly—and the ECOSOC too—to "initiate studies" and "make recommendations" and "promote solutions" to international economic and social problems. In so doing it has sometimes generated useful activity in other forums and has encouraged governments to move. However, its role is not to negotiate precise agreements nor to place unreasonable restraints on the negotiations in other forums.

Success in specific negotiations comes when the participants themselves willingly agree in the forum in which they are negotiating. The role for the General Assembly must be carefully conceived within the Assembly's charter mandate. This role should be to stimulate, periodically review, and facilitate the negotiation process. The Assembly, whose decisions are recommendatory, can influence events and promote solutions if we strive harder to reach a genuine consensus on subsequent steps that governments are willing to undertake. It is these subsequent steps that will produce the changes we seek.

To place the overview role in a body representative of the entire membership is understandable and justifiable since every country has a major stake in the dialogue and the negotiation process. But here we face a dilemma. In these issues each of us has a stake and deserves a voice. At the same time, if we all speak, no one is heard. We have solved this problem in other areas and I believe we can solve it here. We might consider various possibilities, including formal or informal smaller bodies within the U.N. system to assist in performing the overview role. My delegation is open to suggestions others may have on this issue.

We have the task of designating appropriate machinery and processes to elaborate a new international development strategy for the Third U.N. Development Decade. The United States wants a truly constructive approach to the long-range questions of development and international economic cooperation that will give us positive guidelines and inspiration for the difficult road ahead.

The United States strongly supports the objectives of restructuring and reform of the U.N. economic and social sectors. Reforms of the United Nations will permit more active support and utilization of U.N. bodies. More effective management of institutions should be a worldwide cause. We must be able to make the most efficient use of the precious and increasing resources now being committed to development. With proper steps involving budget and program reform, consolidation, and effective internal and external evaluation, the Unite[illegible]ons can play a more important role. W[illegible] these steps, donors and recipients will s[illegible] alternative approaches. This is a fundamental issue the membership must face in dealing with the restructuring role.

We need also to look carefully at salaries throughout the U.N. system. Increasingly, the organization's goals are helping the needy and the impoverished. We must consider the salary issue from that perspective. And we all must take greater care in the placement of personnel in the U.N. system. We need the best that the world has to offer. We already get some of the best. But we need more; and indeed we have the entire world to draw upon. New screening mechanisms should be explored to insure that the right person is placed in the appropriate job. This is another issue in which we welcome the views of others.

Most important of all, if the United Nations is to be effective, its member nations will have to adopt new attitudes toward it. I believe this has already begun to happen. But we must build on what has already been accomplished in the following ways.

—First, we all must make a commitment to use the United Nations in areas of substantive concern. We must send high-level officials and experts from capitals to become engaged in the U.N. policy process. We must improve the quality and substantive content of our involvement.

—Second, we must make the development of resolutions of the General Assembly and its Economic and Social Council a more careful and substantively useful process. The currency of U.N. resolutions is debased when a consensus is achieved in this body only by means of deliberate ambiguity. We must all look harder at our national positions to see if, through extra effort, real consensus can be developed.

—Third, consensus in the United Nations should produce effects. This institution can pass many resolutions by simple majority rule. But often what we are seeking in the economic field is a long-term result that cannot be attained by majority votes. Our common approach to economic issues must reflect a mutual interest if it is to be effective. All of us, in seeking consensus on economic issues, need to aim to affect those major elements of the economic system—both in the developed and developing countries—that can help us attain our goals. Some of these cannot be forced but they can be encouraged. An economic result is what we seek. A consensus that means subsequent effective action is the kind of consensus the Administration will work for.

Let us take some important steps forward at this General Assembly to reach a better understanding of our economic and social problems and the means by which we might solve them. The United States is committed to this effort. We look forward to our involvement with others in this endeavor.

Improving Trends In Trade Cited Despite Year's Record Deficit *

The following analysis of U.S. foreign trade in 1978 was prepared by the Trade Research Division of the Industry and Trade Administration's Office of International Economic Research.

The U.S. foreign trade deficit widened further in 1978 from the record level the preceding year, despite a strong improving trend during the course of the year. The 1978 deficit of $28.5 billion, based on data reported by the Census Bureau, was $2 billion larger than the $26.5 billion deficit recorded during 1977.

The widening of the deficit last year occurred despite a faster rate of growth in exports than in imports. Exports rose 18.5 percent to $143.6 billion, while imports grew 16.5 percent to $172 billion. In contrast, during the preceding two years exports rose by an average of only 6 percent per year while imports expanded by nearly 24 percent.

On a quarterly basis, the deficit narrowed from $41.6 billion at an annual rate in the first quarter of 1978 to $20.3 billion in the final three months. The improvement in the balance during the year reflected a sharp pickup in the pace of export growth and a slowdown in import growth. In the fourth quarter of the year exports were 32 percent higher than in the same period of 1977, while fourth quarter imports were only 18 percent above the comparable 1977 period.

The improvement in the export performance relative to imports was also evident when measured in terms of volume. Export volume rose by 8.1 percent in 1978 compared with 0.4 percent in 1977 and 3.3 percent in 1976. Imports, however, rose by 7.5 percent in real terms, down from 12.5 percent in 1977 and 21.5 percent in 1976. On a fourth quarter to fourth quarter basis, the export increase of 14.8 percent was nearly double the import rise of 7.6 percent.

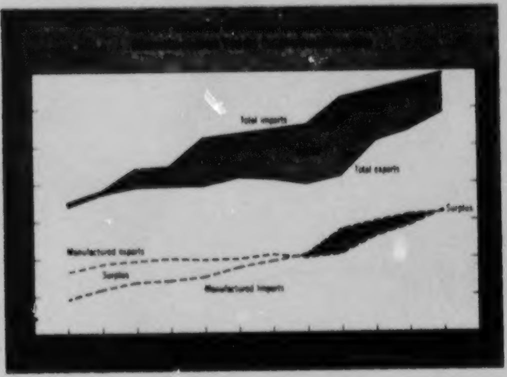
The acceleration in export growth during 1978 was the result of a number of factors including a general improving trend in economic conditions abroad, particularly in the non-oil exporting developing countries where U.S. exports increased 25 percent above 1977 levels. Economic growth in the industrialized nations also picked up and demand from the oil exporting nations remained strong. U.S. sales in all markets were further boosted by the depreciation of the dollar relative to the currencies of most of the industrialized countries which are among our major trade competitors—and customers. Growth in imports, on the other hand, was dampened by the appreciation of those foreign currencies, causing the dollar prices of imports to rise, and by the slower pace of U.S. economic expansion compared to the two preceding years.

The deterioration in the overall trade balance over the past three years was largely accounted for by a decline in the balance of trade in manufactured goods—from a $3.6 billion surplus in 1977 to a $5.8 billion deficit in 1978. Conversely, the improving trend during 1978 was brought about by a sharp shift in the manufactures trade balance from a record $12.3 billion deficit at an annual rate in the first quarter to a $1.5 billion surplus at an annual rate in the final quarter. For the year as a whole, manufactured exports totaled $94.5 billion, up 18.0 percent from 1977, while manufactured imports rose by 31.1 percent to $100.4 billion. In contrast, the return to surplus in the fourth quarter reflected a 27.9 percent rise in manufactured exports from first quarter levels, while imports advanced by only 9.7 percent over the same period.

Among major commodity groups, deficits were generally larger for those categories which were in deficit in 1977, but surpluses also expanded for those categories which have traditionally posted positive balances. The largest deterioration was a $4.9 billion increase in the deficit for consumer goods. Larger deficits were also posted for trade in automotive vehicles and nonfuel industrial supplies. The large negative balance in petroleum and other fuels, however, declined somewhat to $38.4 billion, from $40.2 billion in 1977. The trade surpluses in foods, capital goods and special category (primarily military goods) all expanded.

The record deficits over the last three years underscored the growing importance of foreign trade to the U.S. economy. Recognizing the growing importance of trade and the need to increase exports, the President announced in September of last year a National Export Policy. This marked the first time export growth has been given a definite priority on the national agenda. Present and future actions to implement this policy are expected to become an important factor in U.S. trade over the next few years.

The trade balance with the developed countries as a group worsened by nearly $10 billion in 1978, although during the year the deficit diminished sharply. The



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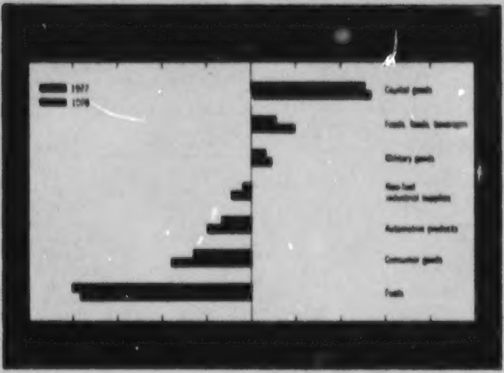
*Reprinted from Business America, v. 2, March 26, 1977 : 7–10. Published by the U.S. Department of Commerce.



deficit in developed country trade was at an annual rate of $20.5 billion in the first quarter, but decreased to an annual rate of $6.4 billion by the fourth quarter.

U.S. trade with Japan grew rapidly in both directions last year. Imports from Japan, which jumped 32 percent, outpaced exports at 22 percent, resulting in a nearly 45 percent increase in the deficit to $11.6 billion. The increase in purchases from Japan mainly reflected higher imports of cars, trucks, automotive parts, and machinery, especially specialized industrial and business machines. The increase in exports to Japan was centered in manufactured goods, with large increases recorded in civilian aircraft, machinery, and chemicals. Shipments of industrial supplies such as logs, steel scrap, and copper also grew, but coal exports fell off sharply.

The deficit with Canada widened to $3.2 billion as imports increased slightly more rapidly than exports—13 percent versus 10 percent. Most of the rise in imports was in industrial supplies, by far the largest component of imports from Canada. Lumber and other building materials, steel, and newsprint imports accounted for much of the growth. Automotive imports from Canada also expanded substantially. The increase in exports to Canada primarily reflected greater automotive shipments, especially parts for assembly, as well as machinery and aircraft. Exports of chemicals and copper, among industrial supplies, rose.

The trade surplus with Western Europe was cut by one-half last year as both exports and imports accelerated. Exports grew by 15 percent while imports jumped 32 percent. This resulted in a $3.4 billion surplus, down from $7.1 billion in 1977. The increase in exports to Europe was largely centered in manufactured goods — machinery, aircraft and parts, and chemicals. In addition, exports of farm products, especially soybeans and tobacco, were sharply higher. Imports from Europe consisted largely of machinery and new cars and parts. Steel purchases from Europe also expanded sharply. Trade balances with our two largest trading partners in Europe deteriorated—the deficit with Germany widened from $1.2 billion in 1977 to $3.0 billion last year and the surplus with the United Kingdom was reduced by one-fourth to $0.6 billion.

In contrast to the worsening U.S. trade position with the industrial countries, the trade deficit with the developing countries narrowed considerably following two years of substantial increases. The balance with the OPEC countries and other oil exporting LDCs improved dramatically over the previous year. Exports to these nations expanded by 17 percent, led by machinery shipments, especially construction and drilling equipment. Imports, on the other hand, declined 8 percent as a result of sharply reduced oil purchases early in the year.

The trade deficit with the other developing countries also narrowed slightly, to $2.1 billion from $2.3 billion in 1977, with a quarterly trend of smaller deficits after the first quarter. Exports, led by strong machinery and farm product sales, grew by 25 percent. Imports of consumer goods led the 22 percent increase in purchases from these countries.

The $2.7 billion trade surplus with the communist countries last year was about double the level in 1977. Exports expanded 66 percent, reflecting large sales of agricultural products—especially corn to Eastern Europe and the U.S.S.R. and wheat, corn, and cotton to China. Imports from these countries increased 37 percent to $1.8 billion.

Large surplus in capital goods

Trade in capital goods was in surplus by $26.8 billion in 1978, somewhat above the 1977 surplus recorded in this category but slightly lower than the record 1976 level. Exports of capital goods—traditionally the largest U.S. export category—advanced sharply last year, following only moderate growth in the 1975-77 period. At $46 billion, these exports were 17 percent higher in value than in 1977. Imports of capital goods remained on a strong uptrend. The 40 percent rise in these imports represented a sharp acceleration over the rate of increase in 1977 and made them the fastest-growing import category last year.

The 1978 expansion in capital goods exports consisted mainly of continued growth in machinery exports at a substantially more rapid pace than in 1977, and a sharp rebound in civilian aircraft deliveries abroad. Among machinery exports, especially large increases were recorded for computers and other business machines, construction and oil drilling equipment, and farm machinery. The upturn in aircraft exports reflected major investments in large passenger transports by a number of foreign airlines.

The steep rise in capital goods imports largely reflected rapid growth in imports of machinery from Japan, Germany and other industrial countries and also from several Latin American and East Asian LDCs. Adding to the rise in capital goods imports was a surge in imports of aircraft parts and engines from the United Kingdom and Canada.

Consumer imports rise strongly

The deficit in trade in consumer goods rose to a record level of $17.8 billion, $4.9 billion higher than in 1977. Consumer goods exports increased by 16 percent to $10.3 billion, but imports of these products advanced by 29 percent to $28.2 billion.

Among imports, the largest increases were registered for imports of clothing, which rose 18 percent to $5.7 billion, and footwear which advanced 43 percent to $2.6 billion. Imports of gem diamonds also continued to climb sharply in value, reaching nearly $2.0 billion. In contrast, imports of consumer electronics equipment continued to decelerate—rising only 14 percent, compared to growth of 29 percent in 1977 and 63 percent in 1976. Despite a reduction in color television sets from Japan, which are limited by an orderly marketing agreement, total TV imports rose 12 percent.

The increase in consumer goods exports was broadly based, with particularly strong exports of household appliances such as air conditioners. However, exports of medicinal and pharmaceutical preparations, the largest single product group, declined slightly. Although Western Europe remained the largest geographic market for U.S. consumer goods, the most rapid expansion was in shipments to Japan and the developing countries in Asia and Latin America.

Automotive trade deficit widens

In automotive goods trade, import growth outpaced export gains to create a $9.9 billion deficit, an increase of 30 percent above the 1977 deficit. Passenger car imports accounted for over half of the total automotive import gain. Export performance was best in vehicle parts, which accounted for two-thirds of the total export increase.

About three-quarters of the gain in total automotive imports was from countries other than Canada. Despite a small drop in unit sales of non-Canadian imported cars due to rising prices caused by appreciating foreign currencies, and the initiation of assembly of a former German import in the U.S., these imports continued to increase strongly. Over 80 percent of the increase in non-Canadian automotive imports in 1978 was attributable to imports from Japan and Germany. Japan alone accounted for almost two-thirds of the total increase and 68 percent of the increase in passenger car imports. While the German share of total non-Canadian car imports did drop in 1978, parts imports from Germany increased in share, more than doubling in value. Non-Canadian truck imports also increased sharply in 1978. Japan, the primary source of U.S. light truck imports, accounted for about 85 percent of the increase.

Reduced 1978 Trade Deficit With Oil Exporters Offsets Much Of Deterioration in Balances With Other Areas

Area	Trade balance 1978	Change in balance from 1977
	Billions of dollars	
Canada	−5.2	−1.3
European Community	+3.0	−1.8
Other West Europe	+0.4	−1.8
Japan	−11.6	−3.6
Petroleum exporting LDCs	−16.3	+5.8
Other LDCs	−2.1	−0.2
Communist countries	+2.7	+1.3

Exports of automotive products to non-Canadian destinations advanced by almost 40 percent in 1978. Most of the gain consisted of greater exports of trucks and parts. Passenger car exports to countries other than Canada increased by about 20 percent, more than offsetting a decline in shipments to Canada.

Deficit in fuels narrows

The decline in the trade deficit in fuels resulted from a drop in petroleum imports from $42.3 billion in 1977 to $39.5 billion in 1978. Oil imports fell nearly 7 percent in volume to 8.14 million barrels per day due to a decline in inventories following a large buildup in 1977. Although domestic petroleum production increased in 1978 as a result of higher Alaskan output, domestic consumption rose by about the same amount. Prices were unchanged at an average of $13.31 per barrel, reflecting an OPEC price freeze throughout the year. Among other fuels, imports of natural gas rose only slightly to $2.0 billion, from $1.9 billion in 1977, but imports of nuclear materials and coal advanced sharply from 1977 levels, to $888 million and $492 million, respectively.

Fuel exports fell 3.8 percent to $4.5 billion. This decline was more than accounted for by a $600 million drop in coal shipments, which reflected a coal and rail strike during the year, and a weakening in foreign demand for U.S. coal, particularly in Japan. Exports of petroleum and products rose, however, largely due to increased crude oil deliveries to Canada under swap agreements with U.S. refiners. Exports of nuclear materials, and small amounts of natural gas to Japan, also rose in value.

Industrial supplies deficit expands

The balance of trade in nonfuel industrial supplies continued to deteriorate, moving from a $1.0 billion surplus in 1976 to a $1.9 billion deficit in 1977, and a $4.4 billion deficit in 1978. The gap between the rates of growth in exports and imports of these goods narrowed somewhat, however. Exports rose by 17 percent while imports grew by 24 percent, compared to 1977 when exports increased only 8 percent and imports rose by 19 percent. The faster rates of import growth over the last few years largely reflected the stronger pace of U.S. industrial production relative to the major industrialized markets abroad.

The rise in imports to $38.8 billion was led by a $1.6 billion increase in steel imports. These imports were particularly high in the first four months of the year, prior to the full implementation of the trigger pricing system for monitoring foreign steel. Although quantities fell in subsequent months, the value of steel imports remained high due to the higher level of prices brought about by the trigger prices. Lumber imports rose 30 percent to $2.7 billion as a result of higher prices and continued strong demand from the construction and housing sectors. Sharp increases were also recorded for imports of chemicals and nonferrous metals such as aluminum and tin.

Exports of nonfuel industrial supplies totaled $34.5 billion. Chemical exports, the largest category, rose 20 percent to $10.4 billion, led by strong sales of fertilizers. Exports of nonferrous metals rose one-fourth to $3.3 billion, partly because of sharply increased sales of gold from U.S. Government stocks. Among agricultural raw materials, shipments of tobacco, cattle hides, and cotton also expanded substantially in value.

The U.S. trade surplus in foods, feeds, and beverages grew by $4.1 billion in 1978 to $9.7 billion. This improvement followed two years of reduced, though still substantial, surpluses. At 27.7 percent, foods were one of the fastest growing export categories last year as foreign demand for U.S. agricultural goods remained buoyant. Wheat, corn, and soybeans, which posted record export levels, accounted for a large part of the $25.0 billion total and factored significantly in the increase. Prices for all three commodities were about the same as or lower than in 1977's very high levels. Increased shipments of these products to Latin America, both Western and Eastern Europe, and the Far East accounted for nearly all of the rise. Exports of animal feeds, rice, and fruits and vegetables also climbed significantly higher.

Imports of foods and beverages increased by 10 percent, only half the rate of growth recorded in 1977. Coffee, the largest import commodity in this category, expanded in terms of volume after two years of decline. The value of these imports fell 5 percent, however, as prices continued to decline. Sugar imports were much lower due to a reduction in quantity that was caused in part by higher import fees.

These declines were more than offset by sharp increases in other products. Meat imports grew by nearly 50 percent, reflecting the short supply situation here and resulting increase in prices and the easing of import quotas. Significant increases were also recorded in purchases of alcoholic beverages, cocoa, and fish.

Background Materials and Economic Data Relating to International Trade (Excerpts)*

U.S. MERCHANDISE EXPORTS AND IMPORTS BY AREA, 1972-78

[Billions of dollars]

Item	1972	1973	1974	1975	1976	1977	1978[1]
Exports	49.4	71.4	98.3	107.1	114.7	120.6	136.9
Developed countries	34.6	48.6	64.5	66.5	72.3	76.7	84.4
Canada	13.1	16.7	21.8	23.5	26.3	28.3	30.1
Japan	5.0	8.4	10.7	9.6	10.2	10.6	12.2
Western Europe	15.0	21.2	28.2	29.9	31.9	34.1	38.3
Australia, New Zealand, and South Africa	1.5	2.2	3.8	3.6	3.9	3.8	4.0
Developing countries	14.0	20.8	32.1	37.3	38.3	41.0	48.5
OPEC[2]	2.6	3.4	6.2	10.0	11.6	12.9	14.8
Other[3]	11.3	17.4	25.9	27.4	26.7	28.1	33.8
Eastern Europe	1.0	2.0	1.7	3.2	4.1	2.9	4.5
Imports	55.8	70.5	103.6	98.0	[4] 124.0	[4] 151.7	[4] 173.0
Developed countries	40.7	49.0	61.1	56.0	67.5	79.2	97.6
Canada	14.5	17.7	22.4	21.7	26.5	29.7	32.9
Japan	9.0	9.7	12.4	11.3	15.5	18.6	24.4
Western Europe	15.7	19.8	24.3	20.8	23.0	28.2	36.1
Australia, New Zealand, and South Africa	1.4	1.9	2.0	2.2	2.5	2.8	4.2
Developing countries	14.8	20.9	41.6	41.3	55.4	70.7	73.7
OPEC[2]	3.0	5.1	17.2	18.9	27.4	35.8	33.2
Other[3]	11.8	15.8	24.3	22.4	28.0	34.9	40.6
Eastern Europe	.4	.6	1.0	.7	.9	1.1	1.4

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[1] First 3 quarters at seasonally adjusted annual rate, preliminary. Detail will not add to totals because of seasonal adjustment discrepancy and rounding.

[2] Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

[3] Latin American Republics, other Western Hemisphere, and other countries in Asia and Africa, less petroleum exporting countries and the International Monetary Fund.

[4] Includes imports of nonmonetary gold from International Monetary Fund, not in area detail.

Note.—Data are on an international transactions basis and exclude military shipments.

Source: Department of Commerce, Bureau of Economic Analysis.

*U.S. Congress. Senate. Committee on Finance. Background Materials and Economic Data Relating to International Trade. Washington, U.S. Govt. Print. Off., 1979, p. 6, 8-9. (96th Congress, 1st session. Committee print.)

U.S. MERCHANDISE EXPORTS AND IMPORTS BY PRINCIPAL END-USE CATEGORIES, 1965–78

[Billions of dollars; quarterly data seasonally adjusted]

Year or quarter	Exports					Imports				
			Nonagricultural					Non-petroleum		
	Total	Agricultural	Total	Capital goods	Other goods	Total	Petroleum and products	Total	Industrial supplies	Other goods
1965	26.5	6.3	20.2	8.1	12.1	21.5	2.0	19.5	9.1	10.4
1966	29.3	6.9	22.4	8.9	13.5	25.5	2.1	23.4	10.2	13.2
1967	30.7	6.5	24.2	9.9	14.3	26.9	2.1	24.8	10.0	14.8
1968	33.7	6.3	27.3	11.1	16.2	33.0	2.4	30.6	12.0	18.6
1969	36.4	6.1	30.3	12.4	17.9	35.8	2.6	33.2	11.8	21.4
1970	42.5	7.4	35.1	14.7	20.4	39.9	2.9	36.9	12.5	24.5
1971	43.3	7.8	35.5	15.4	20.1	45.6	3.7	41.9	13.8	28.1
1972	49.4	9.5	39.7	16.9	23.0	55.8	4.7	51.1	16.3	34.8
1973	71.4	18.0	53.4	22.0	31.4	70.5	8.4	62.1	19.7	42.4
1974	98.3	22.4	75.9	30.9	45.0	103.6	26.6	77.1	28.0	49.1
1975	107.1	22.2	84.8	36.7	48.2	98.0	27.0	71.0	24.2	46.8
1976	114.7	23.4	91.3	39.1	52.2	124.0	34.6	89.1	30.0	59.5
1977	120.6	24.3	96.2	39.8	56.4	151.7	45.0	106.7	36.1	70.7
1977: I	29.5	6.2	23.3	9.6	13.7	36.5	11.6	24.9	8.1	16.9
II	30.6	6.5	24.1	9.8	14.3	37.3	11.5	25.7	9.1	16.6
III	31.0	6.0	25.0	10.3	14.7	38.3	11.3	27.0	9.2	17.8
IV	29.5	5.6	23.8	10.1	13.7	39.7	10.6	29.1	9.7	19.4
1978: I	30.7	6.5	24.2	10.0	14.2	41.9	9.9	31.9	10.7	21.2
II	35.1	8.0	27.1	11.1	16.0	42.9	10.8	32.1	11.2	20.9
III ᵖ	36.9	7.9	29.0	12.5	16.5	45.0	10.8	34.2	10.9	23.2

Note.—Data are on an international transactions basis and exclude military shipments.

Source: Department of Commerce, Bureau of Economic Analysis.

ᵖ Preliminary.

U.S. TRADE BALANCES ON SELECTED COMMODITIES

[In billions of dollars]

Commodity	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Computers and parts	0.5	0.8	1.2	1.1	1.2	1.6	2.1	2.1	2.0	2.6
Basic chemicals and compounds	.7	.8	.9	.8	.6	1.0	1.4	1.6	1.5	1.4
Aircraft and parts	2.0	2.1	2.4	3.0	2.5	3.6	5.3	5.6	5.7	5.3
Other nonelectric machinery [1]	3.6	4.0	4.4	4.2	4.3	5.7	8.8	12.5	10.8	9.2
Motor vehicles and parts	−1.0	−1.4	−2.2	−3.5	−4.2	−4.5	−3.8	−1.6	−5.0	−6.6
Excluding trade with Canada	−.6	−.7	−1.2	−2.2	−2.9	−3.4	−4.0	−2.4	−4.7	−5.8
Consumer electronics	−.6	−.1.0	−1.1	−1.3	−1.7	−2.0	−2.0	−1.6	−2.3	−3.4
Steel products	−1.4	−.8	−.8	−1.9	−1.9	−1.5	−2.3	−1.7	−2.7	−4.3
Textiles, clothing, and footwear	−1.5	−1.9	−2.2	−2.9	−3.3	−3.3	−2.9	−3.0	−4.4	−5.8

[1] Excludes aircraft, auto engines, and office machinery.

Sources: Council on International Economic Policy, *International Economic Report of the President*, January 1977; Department of Commerce FT 990, FT 135; The Conference Board.

THE CURRENT CASE FOR IMPORT LIMITATIONS *

By Irving B. Kravis

I. INTRODUCTION. II. SOME CURRENT ARGUMENTS FOR IMPORT LIMITATION. III. THE COST OF INCREASED PROTECTION TO THE UNITED STATES. IV. A TRADE POLICY FOR THE 1970's IN THE NATIONAL INTEREST. V. SUMMARY.

I. INTRODUCTION

If the best interests of the U.S. lie in faster rather than slower growth in output and income and in better rather than poorer relations with other nations, the policy of the U.S. should be to reduce its barriers to imports and to expand its total trade by seeking reductions in the barriers of other countries to its exports.

The basic logic underlying the economic aspects of this statement is simple and incontrovertible. The gain from our trade with the rest of the world consists not of the things we export, but of the things we import. We are not made better off by giving up goods; we are made better off by receiving them. Public policies that limit our ability to obtain goods from abroad freely and cheaply reduce the real income of the nation.

Of course, restriction of imports may help particular groups in the economy, just as any restriction of supply may. Restrictions on the number of doctors raise the income of doctors; restrictions on hours of work of electricians combined with limitations on occupational entry raise the income of electricians; production quotas on petroleum output raise the income of oil producers. Limitation of imports of cotton textiles or meat raises the incomes of the workers and firms in the industries producing them.

Why not then spread these beneficial effects to everybody? Why not restrict the number and hours of work of each group so as to raise its income? Why not help each group further by protecting it from foreign competition?

The answer is, of course, that every one of these restrictions benefits the individuals concerned at the expense of the rest of the people. Each

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*Reprinted from U.S. Commission on International Trade and Investment Policy. United States International Economic Policy in an Interdependent World. Washington [For sale by the Supt. of Docs., U.S. Govt. Print. Off.] 1971. vol. 1, p. 141–766.

involves a reduction of production and of the national income and a redistribution of the smaller amount of income in favor of the beneficiaries of the restriction. Practiced on a wide enough scale—i.e., if we all try to better ourselves by restricting the supply of our services—even the "beneficiaries" will be left worse off than if there were no restrictions.

Every current claim for protection, no matter what its guise, is a claim for special preference at the general expense.

Whatever the desired objective that is described, there is no getting around the fact that every successful claim for protection makes a select few better off at the cost of making everybody else worse off. It is not possible to use restrictions of supply to make the nation in general better off. The power of the Government to control trade should not be used to favor select groups.

Despite this fundamental truth, there has been in recent years a new wave of sentiment in industry and labor and even in the Congress in favor of import limitations. This is based to a considerable extent upon unfavorable developments in our trade balance which has brought new arguments to the fore and revitalized some old ones. These arguments are assessed in the following section. Each is stated and then analysed.

II. SOME CURRENT ARGUMENTS FOR IMPORT LIMITATIONS

U.S. Imports Have Risen More Rapidly Than Exports in Recent Years; Our Trade Surplus Is Much Reduced, and May Even Be Eliminated or Turned into a Deficit

Trade surpluses have been characteristic of the U.S. balance of payments for nearly a century, and have been large and important during most of the last 25 years. Even after the early post-war shortages in Europe and elsewhere were ended, the surpluses averaged $3.5 billion per annum (1953–67). The trade surpluses helped to provide the foreign exchange necessary to support American foreign investment and U.S. military and economic programs abroad. The decline of the surplus to a little more than a half-billion dollars in 1968 and 1969 has therefore been a cause for much concern.

However, the use of the decline in the trade surplus as an argument for increased import limitation depends upon four propositions:

a. A trade surplus should be an objective of U. S. policy.
b. The decline in the U.S. trade surplus is permanent.
c. Import restrictions can indeed increase the trade surplus.
d. Import restrictions are the optimal way of increasing the trade surplus.

The Need for a Trade Surplus

Whether a trade surplus should be an objective of U.S. economic policy depends in part upon an assessment of the nature of the trade balance that will coincide with a long run equilibrium position in the U.S. balance of payments and in part upon an assessment of the exigencies of the immediate future when equilibrium may not be attained. The long run factors seem to suggest that a trade deficit rather than a surplus will be the appropriate position since income from foreign investments is likely, later if not sooner, to grow faster than either new investments abroad or government expenditures abroad (military plus aid).

However, the analytical relationships are very complicated and forecasting the components flows is very uncertain, while the current balance-of-payments pressures are both clear and certain. It is therefore assumed for purposes of this paper that the U.S., as a matter of prudence, should pursue a policy of avoiding trade deficits and achieving trade surpluses. The assumption might not stand up against careful analysis, but if it errs, it errs in favor of the case for import limitations.

Long-run Prospects for the U.S. Trade Balance

No one can really predict with confidence what the long-run prospects with respect to the U.S. trade balance are. A myriad of factors affect both U.S. exports and U.S. imports. The interplay of these factors as they change continually through time will produce a shifting margin between these two aggregates of diverse goods. The record bears out this expectation of great instability in the difference between exports and imports. In the post-war period the export surplus has waxed and waned several times over varying from less than $1 billion to more than $10 billion. As recently as 1964 it was $6.8 billion and, while the 1968 and 1969 surpluses of $0.6 billion were the lowest since World War II, surpluses near the $1 billion level were recorded in 1950, 1953 and 1959. Even the $3.2 billion drop in the surplus between 1967 and 1968 was not the only large decline. Larger decreases were recorded between 1947 and 1948 and between 1949 and 1950. The surplus now seem to be waxing again, although not with a great amount of vigor.

Nevertheless, these past ups and downs do not warrant the assumption that there have been no persistent factors adversely affecting the U.S. trade position.

When the components of exports and imports which produced the recent deterioration in the U.S. trade balance are examined, it quickly becomes evident that the largest changes are to be found on the import side. Imports rose by nearly $7 billion between 1967 and 1968, an increase of 23%. This rise swamped an expansion of exports of nearly $3 billion which, though not unprecedented, was more than twice the annual average increase of the preceding 14 years. The import expansion was quite generally distributed among major commodity groups although manufactures rose more than primary products. However, motor vehicle imports alone increased more than 60 percent, accounting for $1.5 billion of the $6.2 billion rise in total imports. Over half of this increase consisted of motor vehicle imports from Canada.

If a slightly longer view is taken and changes in exports and imports are compared from the last peak surplus year, 1964, imports again are seen to be the major factor in bringing about the changed position. The rise in imports between 1964 and 1968 was more than $14 billion while the rise in exports was only a little more than $8 billion.

These changes in the U.S. trade position could be attributable to a number of different circumstances, some of which might be operating simultaneously. It seems likely that one important set of influences at work was the quickening pace of economic activity with the increase in military expenditures connected with the Viet Nam war. This occurred at a time when the rate of increase in industrial production in Europe slackened. The impact of these opposite movements in aggregate demand was reflected in a tendency for U.S. prices to rise relative to those of Europe and Japan.

There is also some evidence of structural shifts in the U.S. trade position. In the longer run the U.S. has become a net importer in mineral fuels, motor vehicles and "other manufactures", comprising such categories as textiles, iron and steel, etc. Chemicals and machinery other than motor vehicles are the only sectors in which there has been an upward trend in the trade balance, but only in the former is this associated with a faster export growth rate. In "other machinery" a very small starting level for imports and a large one for exports has produced larger dollar increases in exports than in imports despite a lower export growth rate; this kind of upward trend contains the seeds of its own destruction. Of course, our perception of these trends is heavily influenced by the sharpening of demand pressures in the U.S. and their relaxation in Europe in the last few years mentioned above.

On the other hand, it is possible to argue that there are basic alterations in the world economic picture that are unfavorable to the U.S. trade balance. The faster diffusion of technology, the spread of U.S. managerial methods and indeed of American management itself, and the greater international mobility of capital all tend to diminish important margins of advantage that the U.S. has had which contributed substantially to the U.S. export position in newer and more sophisticated products.

Of course, it has been true all along that the monopoly that an innovating country enjoys on a new product is apt to be a temporary one. Even before foreign affiliates, licensees or subsidiaries—let alone multinational corporations—became so common, the knowledge of the new product in almost all cases sooner or later was spread abroad and production was successfully imitated. The innovating country does not necessarily have a long-run comparative advantage in every new product that it develops. Thus, for the United States for nearly 100 years now, the exports of one year have often become the imports of a later year. This has happened to a long list of American products from sewing machines to TV sets.

The transfer of technology, it should be noted, goes in both directions.

Some has been from foreign countries to the United States. Thus. the Bessemer and open-hearth processes for making steel were imported from England in the last century and the oxygen process from Austria, Germany or Sweden and the extrusion process of squeezing cold steel into desired shapes from Italy in more recent years. Also, there is a substantial amount of direct investment by multinational firms other than those of U.S. origin. A recent estimate for 1966 placed the proportion of U.S.-owned international direct investment at 57.4 per cent.[1] If the multinational corporation is a transmitter of technology, it seems likely that a lot of foreign technology is also being diffused, and some of it to the U.S. However, it is highly probable that the overwhelming movement has been outward from the United States. The innovating country sometimes still enjoys benefits after the transfer in the forms of licensing royalties or direct profits on foreign production. Also, the position of a continuous innovator is partly protected by the continual development of new products or models that make obsolete or at least less desirable the ones that have spread abroad. The speed with which innovations are being replaced by superior innovations is probably also increasing and this, too, affords some continuing margin of advantage for the innovating country.

In general, however, it seems likely that the net effect of all these changes and particularly of the greatly increased speed with which they have been occurring has been to reduce the margin of technological leadership which the United States formerly enjoyed.

All in all, then, there are grounds for pessimism with respect to the structural influences affecting the U.S. trade balance. However, even if the direction of these influences turns out to be unfavorable, no confident forecast of the future can be made. Many other factors affect the trade balance, and prediction is just about impossible. The most important unknown consists of developments in the relative prices at which U.S. goods are available to foreigners and in the relative prices at which foreign goods are available to Americans. These are proximately determined by changes in domestic price levels and in exchange rates. The movement of each country's domestic price level is heavily influenced by cyclical developments and by public policies that are not related or only partially related to balance of payments factors. Even if pessimistic expectations about the structural factors turn out to be correct, we cannot tell whether a future rise in U.S. prices relative to those of foreign countries will accentuate their impact or a future fall offset and obscure them. The possibility of changes in government policies taken to influence the trade balance or the balance of payments in general adds to the uncertainties. No one can say if or when monetary and fiscal policies to affect the price level or commercial policies—tariff and nontariff barriers, export subsidies, etc.—intended to have a direct effect on trade flows will be altered in the U.S. or in one or more of its important trade partners. No one can predict when a key exchange rate will be altered under the pressure of a deficit or of a surplus. All these factors have a powerful influence on the U.S. trade balance, and their net effects can not be known in advance.

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[1] A. Robock and K. Simmonds, "How Big Is It—The Missing Measurements", *Columbia Journal of Business*, May–June 1970.

In view of these uncertainties, let us again draw the inference that appears to be most favorable to the case for import limitations. Let us assume that a trade surplus will not come about without some deliberate policy action by the U.S. The question then facing the U.S. in the 1970's is whether this should be attempted mainly or even to a major degree by means of trade restrictions.

The Feasibility of Import Restrictions as a Means of Increasing the U.S. Trade Surplus

The hard truth of the matter is that it is not open to the U.S. to improve its trade balance through item-by-item import restrictions. Almost any restrictive move made by the United States can be expected to bring retaliation and to result in an approximately equivalent diminution in U.S. exports. The warnings on this point by responsible foreign authorities should be taken at their face value.

It must be realized that these warnings refer not to new and untried measures but rather to responses that are built into the trading system and for which there is ample precedent and wide acceptance in the community of nations. A basic principle of GATT (the General Agreement on Tariffs and Trade), which governs the trade relations of the western countries, is the preservation of the "balance of benefits" which each country derives from the tariffs that have emerged from six rounds of international negotiations in the last quarter of a century. A country that finds its interests adversely affected by an increase in a duty that has been bound or reduced in a GATT negotiation—and this includes virtually every U.S. tariff classification—or by the imposition of a quota is entitled to compensatory concessions. If these are not forthcoming, it is free to restore its balance of benefits through restrictions of its own. Any extensive effort by the United States to use import limitations to improve its trade balance is thus almost certain to set off a self-defeating chain of restrictions on trade that would serve neither the economic nor the political objectives of this country.

Trade Restrictions as the Optimum way to Improve the Trade Surplus

Even if it were claimed that other countries would permit the United States to improve its trade surplus through limitations of imports, the further proposition would still have to be established that item-by-item import restriction was the best way to achieve the desired increase in surpluses. The item-by-item approach can be defended only if it is argued that the government and not the marketplace should be allowed to determine the changes in the commodity composition of imports by which the trade balance should be improved.

If the objective is to reduce the general level of imports or to limit its increase, then it is logical and efficient to use some general criterion, perhaps a uniform ad valorem tariff surcharge applied to all goods, rather than a series of discriminatory tariff increases favoring the domestic producers of some goods over the domestic producers of others. But if the trade surplus is the true objective, it can be improved through an increase in exports as well as a diminution in imports. Increased exports can be encouraged through export promotion measures such as tax incentives and better credit facilities. However, if a uniform ad valorem tariff were applied to imports an export subsidy would make the price of foreign currency the same for U.S. exporters and importers and would therefore lead to the most efficient use of U.S. resources as between home and foreign markets in production and between home and foreign goods in consumption.

A uniform tariff and subsidy would be akin to a practical devaluation of the dollar applicable only to trade or perhaps to trade and some service transactions. There are, of course, still other ways of achieving the same effects of making U.S. goods cheaper to foreigners and foreign goods dearer to Americans. One is outright devaluation which would affect capital as well as trade and service transactions. Other less dramatic ways which are much less likely to encounter objections from other countries involve the restriction of future U.S. price movements to rates of increase that are lower than those of the other major industrial countries. This can be accomplished through monetary and fiscal policy or through a wage and price policy, although either means would be politically difficult. All these measures (i.e., partial or total devaluation, restraint of price increases through general or specific policies) would achieve an improvement in the trade balance while leaving it to the market to determine which imports would decrease and which exports would increase.

The United States has, Over the Years, Given Many One-Sided Trade Concessions that have Opened its Markets to Foreigners while U.S. Exporters Find Themselves under Serious Handicaps in Foreign Markets

To some degree, this argument is an extension of the previous one. The relative rise in imports is taken as evidence of the opening of the U.S. market and the failure of exports to increase more rapidly as evidence of the discriminatory practices in foreign markets. The trend of exports and imports, however, is not in itself conclusive evidence since many other factors could account for these trends.

Claims that American negotiators over the years have traded away market opportunities in the U.S. without equivalent concessions abroad have never been accompanied by a quantitative assessment of the impact of changes in tariffs and other terms of access. Such evidence as is readily available does not support the view that U.S. commercial policy, either alone or in conjunction with foreign commercial policy, has been

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responsible for the rapid growth of imports or for the failure of our exports to expand more rapidly.

In the first place, a number of comparative studies of tariff levels have indicated that U.S. tariffs are slightly higher on the average than those of the European Economic Community and slightly lower than those of the U.K. The accompanying table shows average tariff rates for various categories of goods as well as the overall averages. The latter differ little among the major industrial exporters. Average post-Kennedy Round tariffs on non-agricultural, dutiable imports are estimated at 9.6% for the U.S., 8.1% for the Common Market, 10.6% for the U.K., and 9.5% for Japan; for dutiable manufactures, the rates are 9.9, 8.6, 10.8 and 10.7, respectively, for the same countries. The U.S. rates in these computations are expressed as a percentage of c.i.f. value, as are the rates for the other countries.

Of course, even similar average tariffs may have different restrictive effects in different countries, depending on such factors as the structure of the rates, elasticities of demand and supply, the share of imports in domestic consumption, and the composition of imports. When these factors are taken into account, U.S. tariffs, Professor Balassa found in a study of pre-Kennedy Round rates, were more restrictive of imports than those of the EEC and the U.K., though less restrictive than Japan's.[2]

Tariffs for individual commodities and average tariffs for classes of commodities are dispersed around these overall rates in ways that differ from one country to another. In some commodity classes, such as textiles and chemicals, the table indicates that U.S. rates are higher than those of other countries; in others such as transportation equipment and electrical machinery the U.S. rates are lower. Thus, individual U.S. industries sometimes find that the tariffs levied on American goods by the foreign source of supply are higher than the corresponding U.S. rates. For example, U.S. and foreign tariffs on electronic products (tubes, transistors, transformers, loudspeakers, etc.), were cited as an example of inequitable tariff treatment at the recent House Ways and Means Committee hearings on "Tariff and Trade Proposals". The U.S. rate of 7.6% was compared to rates of 14% for the EEC and 12.4% for Japan.

Where cross exporting (i.e., two-way trade) of similar products exists or where U.S. firms would be able to export to the foreign source of supply over a lower tariff barrier, an industry might justifiably regard a difference in tariff rates as inequitable. This would, of course, be equally true for a foreign industry facing higher U.S. tariff rates. Very often, however the difference in rate is of little practical importance because the domestic industry would not be able to compete in the foreign market regardless of the level of the foreign tariff. If in the electronic components industry, for example, Japanese costs are lower than those of the U.S., a lowering of the Japanese tariff to the American level would not have any beneficial effects upon the position of the U.S. industry.

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[2] Bela Balassa, *Trade Liberalisation among Industrial Countries*, 1967, p. 59.

Not only are the present overall tariff levels rather similar among the major industrial exporters, but it is not at all clear that U.S. tariff levels have declined very precipitously in the last 20 years. Tariff Commission figures show that duties collected as a percentage of dutiable imports have varied mainly in the 11 to 12% range in the last few years compared to a 12 to 13% range in the early 1950's.[3] As the Commission points out, these average ad valorem equivalent duties are not completely reliable guides to changes in the level of protection since, among other reasons, they are affected by changes in the composition of imports. Tariffs reduced to the threshold that made imports possible where there were none before, might still average out to levels above the previous average ad valorem equivalent collected duty. The average might thus fail to decline despite general reductions in duties. On the other hand, there is little doubt that in the various GATT rounds of tariff cutting, particularly before but not altogether excluding the Kennedy Round, there was a systematic search for concessions to offer to foreigners that could safely be made without having a great impact on U.S. imports.

The notion that tariff concessions played a major role in the increase in U.S. imports is not strongly supported by the timing of the import changes. If tariff concessions were an important influence, each round of tariff reductions should have been followed by a surge of imports. In fact, neither the reductions made in the 1956 round nor those made in the Dillon Round of 1961–62 appear to have a large gross impact on U.S. imports. The great increase in imports between 1967 and 1968 did come at a time when the first Kennedy Round reductions went into effect, but the 23 percent increase in imports could not have been attributable to any major degree to a cut in tariffs that can hardly have amounted to an average reduction in price to U.S. buyers of as much as 1 percent.[4]

The available evidence thus does not indicate that U.S. firms are generally at a competitive disadvantage owing to differences in tariff barriers or that the U.S. tariff barriers faced by actual exporters to the U.S. have been radically reduced in the last twenty years.

Much of the concern about the relatively unfair treatment of American exports is, however, directed to non-tariff rather than to tariff barriers.

There is no doubt that U.S. exports are limited by non-tariff barriers. Buy domestic policies, safety regulations, and the rebating of excise taxes on exports and compensatory levies on imports are among the many practices that American exporters have found place them at a disadvantage in international competition. However, the United States is not without its own non-tariff barriers including buy American policies, the imposition upon foreign countries of "voluntary" agreements to limit exports to the U.S. as in cotton, textile, and steel, and direct unilateral restrictions on imports of dairy products, meat, sugar and oil. Also, the U.S. barriers have been increasing rather than diminishing in number and importance. In the last few years, "voluntary" quotas on steel and meat, prohibition of imports of firearms other than those used for sporting purposes, and a tariff quota on brooms have been added to the list.

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[3] See U.S. Tariff Commission, *Value of U.S. Imports for Consumption, Duties Collected and Ratio of Duties to Values, under the Tariff Act of 1930, 1930–69*, Feb. 1970, (processed).

[4] The reductions averaged 37 percent, and 20 percent of each reduction went into effect on January 1, 1968. A 7.4 percent cut in an average duty of, say 12 percent comes out to a saving for U.S. buyers of imports of less than 1 percent.

Trends in foreign non-tariff barriers have been more mixed. Between the early 1950's and the early 1960's the trade restrictions maintained by many countries for balance-of-payments reasons were reduced and then eliminated. With the advent of the Common Market, however, some new and important barriers to U.S. trade, particularly the variable import levy, were imposed.

The non-tariff barriers imposed by the United States and other countries undoubtedly restrict the volume of foreign commerce but whether they are at present more burdensome to American exporters than to foreign exporters is not obvious. The Japanese restrictions almost surely limit imports more than do the non-tariff barriers of the U.S. and Western European countries. It would take a special study to confirm or deny the widely prevalent notion in the United States that European non-tariff barriers are more restrictive than ours. An important new work by Professor Baldwin suggests that relative to the U.K., at least, the U.S. still has a slightly higher rate of effective protection when non-tariff, as well as tariff, barriers are taken into account. (The effective rate of protection measures the degree of protection of value added in manufacturing; it indicates the excess in domestic value added that can be obtained as a result of trade restrictions, as a percentage of what the value added would be under free trade.) Baldwin's estimates for 1972, the year in which the Kennedy Round tariffs come into full force, indicate a 15 percent overall rate of effective protection (tariff and non-tariff) for the U.S. and a 13 percent rate for the U.K.[8]

This is not to deny that nontariff barriers have been growing in importance, both at home and abroad, relative to tariffs. Furthermore, the common U.S. view that foreign non-tariff barriers are greater than those of the U.S. may well turn out to be more justified in the case of the EEC and still more in the case of Japan. Even so, it seems doubtful that non-tariff barriers can be held responsible for the failure of U.S. exports to grow more rapidly. A relaxation of the barriers would, it is true, give U.S. exporters a fairer chance to enter European and Japanese markets, but U.S. export gains might turn out to be modest. Most of the barriers are aimed at imports in general and are not discriminatory against the U.S. Their relaxation would therefore open each market not just to the U.S. but to other competing countries as well. American exporters would probably enjoy some increase in sales as a consequence, but to gain this and to achieve the still more problematic effect of an increase in the rate of growth in their sales, they would have to meet the competition of other countries. The record does not suggest that under the conditions prevailing in the last few years, U.S. exporters would be very successful. Between 1964, the year when there was a trade surplus of $6.8 billion and 1969, the U.S. share in world exports declined from 15.2% to 13.8%. The U.S. shares in imports of Japan, of the developing countries and of the EEC from outside countries also dropped by 1 or 2 percentage points. None of these changes can possibly be attributed to nontariff barriers.

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[8] Robert E. Baldwin, *Non-tariff Distortions of International Trade*, Brookings Institution, 1970, pp. 165 and 168.

The dismantlement of non-tariff barriers is an objective that is important to pursue but it is doubtful that it will provide a major key to the resolution of the problems with our trade balance. Even if all—U.S. and foreign—non-tariff barriers were eliminated, it is not sure that our export balance would become larger. Certainly our imports would increase and our exports also, but even if the barriers of foreign countries are more restrictive than ours, the size of the gain in our exports would depend upon the competitiveness of our economy. Non-tariff barriers certainly have a harmful effect on world commerce and income, but they just do not fill the role of chief villain in the story of the disappearing trade balance.

Imports have an Unfavorable Impact on Employment, Particularly Since They Tend to be Concentrated in Labor-intensive Products

One of the necessary conditions for the improvement of the living standards of a country is the mobility of labor and capital. Some notion of the dynamism of the modern economy is called to mind simply by considering what a small fraction of his consumption expenditure each of us spends on things that are physically identical to those purchased by his father at an equivalent stage in his life.

Some of the changes in production necessary to turn out new products and new product varieties and to use cost reducing methods can be smoothly absorbed by the existing industrial organization without requiring much adjustment either by labor or capital. For example, when the home freezer industry developed, the workers and firms that had previously manufactured refrigerators could move easily into the new good. Other changes, however, require reduction in the number of firms and workers in an old industry as new conditions develop. For the most part, the pressures for change are generated within the internal economy of the United States. This was true, for example, of the losses of employment suffered in the Michigan peninsula when station wagon bodies began to be made of steel rather than of wood. It was true also when the hosiery industry moved out of Philadelphia into the South and more generally when the textile industries of Pennsylvania and other northern states shifted to North Carolina and other southern states. Between 1947 and 1967, for example, Pennsylvania lost 69,700 production jobs in the textile industry while North Carolina gained 32,500. Sometimes, as in the recent contraction of the space effort, a change in government needs or priorities is the cause of the disruption of individual lives and of blight for a whole community. In these cases and many more, thousands and thousands of workers and many employers suffered great economic, social and psychological injuries through no fault of their own as a result of changes in the marketplace. In each of these cases it would have been in the interest of the workers and employers concerned to have government intervention or decision that would prevent the shift to a new product or a new location.

What is the appropriate national policy in these cases? Surely, no one would argue that it would be appropriate to guarantee any industry or firm against a reduction in its level of employment. Any effort along these lines obviously would promote a hothouse economy pockmarked with artificially maintained prices for commodities serving needs that could be more cheaply provided for in a free market. The protection of particular individuals against such disruptions can only be achieved at the expense of the rest of the U.S.

What is worse, such protection tends to freeze patterns of employment that are not in the long-run interests of workers or of the U.S. at large. The jobs that are protected tend to be low-wage jobs relative to those that would be available without protective policies. The Pennsylvania textile workers of yesterday were injured by the shift to the South. Today, their successors are better off than they would be if the government had intervened to keep the textile industry in that stage; they are working in industries that pay higher wages than the textile industry.

The problem is not different when the pressure for the reduction in the employment and number of firms in an industry comes not from another section of the country but from abroad. Today's workers and employers in that industry will be better off if the government intervenes and prevents their loss of jobs and capital. The cost of such a policy in the short run is borne by the rest of the economy which is denied the opportunity to obtain the goods at the lower prices available abroad. In the long run, however, the workers themselves have to be regarded as worse off. By and large, the industries that need protection from foreign competition are low-wage industries and the jobs that are being perpetuated by restrictions on imports are low-wage jobs. At the same time, a policy of import restriction prevents the expansion of export industries which characteristically pay higher wages. This is true because the restriction of our purchases abroad gives foreigners fewer dollars which they can spend in the United States.

In short, protection can at best make a small fraction of today's labor force better off at the expense of the large majority and at the expense also of tomorrow's labor force.

The irrationality of a policy of using trade restrictions to create jobs is shown by data presented to the Congress by a spokesman for industries seeking the restriction of imports. In a statement before the Joint Economic Committee last March, a representative of the Trade Relations Council reported upon an analysis of the trade position of 313 four-digit manufacturing industries of the United States. In 1967, 128 of these industries had a foreign trade deficit aggregating $9 billion. The excess of imports over exports in these industries was calculated to involve a net loss of 367,552 jobs. The other group, consisting of 185 industries, had trade surpluses which amounted to $10.4 billion. The job-equivalent of this trade surplus was estimated at 201,532 jobs. Although apparently cited as an argument for protection, these data constitute a powerful argument for freer trade. For the labor of a little more than 200,000 men, we received $10.4 billion. This was enough to obtain goods from abroad that it would have taken 400,000 men—twice as many—to produce. To advance these figures as an argument for protection is to embrace a make-work philosophy. It is to argue that we should devise policies that will lead to more, rather than fewer, hours of work to produce a dollar's worth of real income. If this is what we want, protection is a good way to get it. If we want to find ways to increase man hours per dollar of output, international trade is not for us. International trade increases real product per hour of work rather than raising the hours required to produce a dollar's worth of product.

The magnitude involved in the Trade Relations Council's estimates of the net effect of trade on employment also clearly indicates that the trade balance has only a small net impact on overall employment in the U.S. The size of the trade surplus affects at most a few hundred thousand out of the nearly 80 million civilian jobs. During 1968, for example, when imports soared and the trade balance plummeted, other and much larger influences were at work so that employment expanded by more than 2 million jobs and the unemployed rate dropped from 3.5 to 3.3 percent.*

As these events suggest, the level of employment in the U.S. does not depend in any quantitatively significant way upon the level of imports. It is determined to an overwhelming degree by internal influences. The expansion of international trade certainly does not require a higher level of unemployment. International trade is no more inconsistent with full employment than other efficiency-increasing influences such as automation or cost-reducing changes in industrial location. All impose a temporary cost in terms of job displacement.

Advocates of freer trade—like defenders of automation—have sometimes been chided for citing job statitstics without sufficient regard to the human beings involved. However, the whole argument turns precisely on human welfare. Is it increased or diminished by changes that are required for greater efficiency? The answer is that there is a restricted and short-run hurt in exchange for a widespread and long-run gain. The extent of the losses to adversely affected individuals will be smaller when the changes occur against the background of a buoyant economy. This is clearly illustrated in the story of the remarkable achievement of the Common Market countries in abolishing tariffs among themselves completely with little disruption of individual firms and workers. Rapid economic expansion was an essential feature of the story. The real gross national product of the Common Market countries increased by 50 percent from 1959 to 1967 while internal tariffs were coming down.[7] It is easy to make room for increased imports when domestic demand is expanding; even where imports enter in very large volume it is not so difficult for businesses to find other lines which they can pursue with greater profit.

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* Employment and unemployment figures as of January 1968 and January 1969.

The proper means to pursue full employment objectives is not tariff policy but monetary and fiscal policy.

Foreign Competition is Unfair because it is Based on Low Wages

International trade raises real income because certain industries, owing to some natural or cultural differences between different areas of the world, are able to produce at a lower cost in one country while others will be able to produce at lower cost in some other part of the world. American producers, when confronted with the natural or acquired advantage enjoyed by a foreign industry, often feel, quite rightly, that they are facing unequal odds. Some years ago, a Pennsylvania oil producer whose wells produced less than a barrel a day felt that it was unfair to have to compete with the wells of the Middle East that produce 5,000 barrels a day. So in a sense it was. However, it was "unfair" in the sense that one would use in a sports contest; the same standard of equity is not appropriate as an economic criterion. No sound policy can be based on the principle of eradicating all the economic advantages possessed by any contestant in order to run a competition that gives an equal chance to all entrants. Such a policy would imply that American firms that have unusual know-how or access to large amounts of capital should be precluded from selling abroad because they have an unfair competitive advantage over less sophisticated and more poorly capitalized European firms. It would be, once again, to reject the view that a main goal of our economy is to maximize output per unit of input.

The advantage that most other countries have relative to the U.S. is an abundant labor supply relative to other factors of production. Productivity is low, but wages are sometimes even lower so that labor costs in some industries are below those of the U.S. For example, in 1967 the Japanese GNP per capita was, according to the rather imperfect measures available, about 40 percent of that of the U.S. However, in the iron and steel industry hourly labor cost was only 21 percent of the U.S. level and unit labor cost 30 to 38 percent of the U.S. level.[9] In industries where differences in wage levels are decisive, foreign firms are apt to have the advantage over U.S. firms. Such industries include labor intensive industries like textiles and shoes and also industries like steel, mass-producing relatively standardized products by well established, widely known methods of production.

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[7] From $240.1 billion to $350.0 billion in 1968 prices (A.I.D., "Gross National Product Growth Rates and Trend Data", April 30, 1970).

The wage advantage that these foreign industries enjoy is no more "unfair" in the relevant economic sense than is the superiority of the Middle East oil well over the Pennsylvania oil well or of the well capitalized technologically advanced U.S. firm over the smaller and less sophisticated European firm. It is easy to understand and indeed difficult not to sympathize with the feeling of workers and firms that the situation is unfair to them. However, the fact remains that no case can be made in the broad public interest for the protection of particular industries on grounds of "unfair" competition even when, owing to low foreign wages, prices and costs abroad are lower than the most efficient producer at home can achieve.

What can be regarded as unfair is to ask the workers and employers in the affected industries to bear the costs of adjustment, particularly if these costs result from a change in national policy designed to benefit the nation as a whole. Relief should, however, be temporary and geared to adjustment rather than to the permanent protection of any share of the domestic market. The experience of the European Economic Community in moving to tariff-free trade, already noted, suggests that the extent of the dislocation of industry may be surprisingly small. Once the policy of free trade was convincingly laid down in the six Common Market countries, firms had the incentive to adjust rather than the incentive to organize politically for protection.

Someone might wish to argue that the whole level of wage rates abroad is so low relative to wage rates in the United States that all foreign industries or many of them have advantageous labor costs relative to the U.S. industries. If that argument were valid, what would be called for is not protection for particular industries but an across-the-board change in the power of foreign currencies to purchase U.S. goods: the objective would be to restore a balance in which some industries had low enough labor costs so that, together with their other advantages, they would be enabled to export enough to achieve a trade balance (or a trade surplus if that were taken as an objective of our policy). Alternative ways of achieving such an adjustment have already been discussed.

The Advent of the Multinational Corporation has so Changed the Nature of Trade Relations that the Case for freer Trade has been Made Irrelevant

The rise of multinational corporations has brought forward new problems. In a world organized into nation-states the rise of firms employing a global approach to production and marketing creates new problems with respect to national jurisdiction and national interests with respect to the location and volume of production, exports and imports, taxation, etc.

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[9] GNP estimates from U.N., *Yearbook of National Accounts Statistics*, 1968, Vol. 2. Labor cost comparison from BLS estimates reproduced in House Ways and Means Committee, *Hearings on Tariff and Trade Proposals*, May 11, 1970, p. 215.

However, there is no evidence that the multinational corporation is immune from the economic forces that determine which goods can be most cheaply produced in which countries. On the contrary, it seems likely that the multinational corporation provides decision-makers with better information about the most advantageous location of production than was previously available. Components, such as the Ford engine for the Pinto, are produced abroad when they can be made cheaper.

The effects of multinational corporations on the U.S. trade balance are very difficult to estimate. They have hastened the processes described earlier as probably unfavorable to the U.S.—the diffusion of American managerial methods, production techniques, and capital; but in a shrinking world the pace of this diffusion was bound to increase anyway. Exports from their U.S. plants of the main products produced by their foreign plants have probably been reduced. However, there is at least some validity to the claim made by the corporations themselves that their establishment of production abroad was necessary to protect their holdings of the foreign market against potential foreign competition. To the extent to which this is true, foreign production and even exports from foreign plants may not be at the expense of U.S. exports, and the profits from foreign operations a possible net gain to the U.S. balance of payments, depending upon the use to which they are put. More definite sources of gain to the U.S. balance of payments are exports of machinery and of supplementary product lines, the latter being of potential importance when full-line production is maintained in the U.S. and foreign production limited to models for which there is a large market in the host country.

However the net effects turn out, it seems clear that multinational corporations can hardly be held responsible for import problems in textiles and a number of other areas where the domestic industry has been in difficulty and has sought protection. Multinational companies are important in automobile production, petroleum, tractors, chemicals, pharmaceuticals, office machinery, and farm and construction equipment. In most but not all of these areas the U.S. has a strong export position. In the few cases in which multinational corporations have been conspicuous in industries encountering severe import competition, the products though relatively new, such as electronics, require labor-intensive methods of production.

In any case, the injury to U.S. interests of which multinational corporations are accused by those seeking trade restrictions is not different from others independently claimed as a basis for import limitations and already discussed—viz., a reduced U.S. trade surplus and job displacement. The expansion of the multinational form of corporate enterprise adds many new problems to the relations between government and business and to intergovernmental relationships, but it does not constitute a new argument for protection. Indeed, the retaliatory or at any rate unfavorable responses that can be expected from foreign governments to any U.S. effort to limit imports would make much more difficult the intergovernmental cooperation that is required to cope with many of the problems in this field.

The National Security of the United States Requires that Some Industries be Protected

The national security argument is sometimes applied to natural resource products such as petroleum and sometimes to fabricated products such as steel.

It can hardly be denied that petroleum and steel and indeed a vast host of other products are essential to national defense. But direct guarantees do not always achieve their intended results. One is reminded of the old story of the wise town elders who, wishing to accommodate the convenience of all visitors, decreed that one of the town's two taxis always had to be at the railroad station.

In the case of a natural resource product, it has never been satisfactorily explained how a program which encourages the use of domestic reserves rather than the use of the foreign product will assure adequate domestic supplies in case of an emergency. The argument advanced to defend quotas on the import of crude oil and petroleum products is that high domestic prices, which are necessary to maintain a high level of new discovery and exploration, can be kept only by restricting cheap foreign imports. If national security is dependent upon the ready domestic availability of large quantities of petroleum, what is really called for is a program of subsidization for the exploration of petroleum reserves in the United States and a program that would restrict domestic production to the levels necessary to keep a domestic petroleum industry operational and capable of sudden and large expansion in the event of necessity.

What is particularly indefensible is the protection of the domestic petroleum industry through import quotas rather than tariffs. Import quotas have the effect of transferring to private pockets in the form of monopoly profits substantial sums of money from the public purse. If it is felt that tariffs are too uncertain in their effects on import quantities and quotas are desired on this account, the quotas should be auctioned off so that their monopoly value does not accrue to private firms. At a time when important social needs are being denied because of inadequate government revenues, it is particularly inappropriate for the government to confer monopoly power worth over a half billion dollars per annum on private parties.*

In the case of a manufacturing industry, such as the steel industry, it is argued that protection is necessary to maintain skills that would be lost were the industries subject to unrestricted import competition. The American Iron and Steel Institute, for example, has claimed that the unchecked growth of steel imports presents a direct threat to our national security since a domestic industry will no longer be able to produce the full range of steel products necessary for national security.[10] In addition, it is argued, that under crisis conditions serious shortages might develop.

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* Baldwin's estimate for 1966 was $620 million; the markup that year was equivalent to 67 percent of the cost of imported oil. *Op. cit.*, p. 32.

In fact, the wartime experience of the United States, like that of every other country, including England, Germany, and Japan, demonstrates very clearly that human skills and ingenuity manage very quickly to produce whatever is needed in wartime. The United States during World War II, for example, was able to produce large quantities of airplanes including many kinds which had never been produced before and even to master the production of products like lenses, which formerly had been regarded as the province of highly skilled craftsmen not to be found in the United States.[11]

The national security argument is also weakened by the diminished likelihood of a large-scale conventional war of long duration. A major nuclear war would be brief and horrible and its outcome would not be affected by the size of particular domestic industries such as oil or steel. Non-nuclear wars restricted to particular regions are unlikely to leave the U.S. cut off from all foreign sources of supply.

Protection for national security purposes is also counter-productive politically and diplomatically. Further action to limit steel imports, for example, would strengthen the divisive forces affecting our relations with friendly countries.

III. THE COST OF INCREASED PROTECTION TO THE UNITED STATES

The benefits of import limitations, it has been shown, accrue to favored groups in the economy at the expense of the population as a whole. Some of the ways in which these costs are incurred have already been described. The disadvantages of a policy of protection are set out more systematically in the following paragraphs.

The Insulation of the U.S. Economy from Foreign Competition will Reduce Consumer Choice and the Stimulus to Innovation

The maintenance of competition in a market economy under modern technological conditions where the scale of the firm is so large in many industries is one of the difficult problems of economic organization facing the United States. The entry of foreign competitors into the American market makes it more difficult for large firms to pursue a live-and-let-live policy that will produce a quiet life for their managers but which will not be in the interests of consumers or the economy at large. There are on record in recent years a number of cases in which the stimulus to innovation has come from foreign competition—the small car, oxygen steel, and flat glass. The American consumer and the economy in general is better off for each of these cases of increased foreign competition.

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[10] See U.S. Senate, Committee on Finance, *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies*, 90th Congress, second session, Volume 2, page 501.

[11] See the statement of Raymon Vernon, Joint Economic Committee, Subcommittee on Foreign Economic Policy, *Hearings: Defense Essentiality and Foreign Economic Policy*, 84th Congress, second session, June 4, 5, 6 and 7, 1956, pp. 49–53.

Import Limitations will Lead to Higher Prices and Make the Control of Inflation More Difficult

Recently, the proposition that import controls or tariffs are likely to lead to higher prices for the protected commodities has been challenged. These challenges usually take the form of citing cases in which products under protection such as cotton textiles have been marked by price increases smaller than the price level in general. These instances have usually been contrasted with other products like coal which although un-protected have risen in price more than average. The juxtaposition of such examples only indicates, however, that there are other price-determining influences that are also at work. It does not mean that the observed price of a protected good whether it has risen more or less than average, would not be lower without the quota or without the tariff.[12] Nobody has yet set out the logic by which it can be claimed that the restriction of a cheap source of supply will not tend to raise the price. Most quotas not only result in higher prices to buyers but, as noted in connection with the discussion of the oil quota above, confer a monopoly profit on those lucky enough to receive the privilege of importing some of the limited quantity of goods permitted to enter the United States.

The upward pressure on prices exerted by import quotas or tariffs also hurts the United States by weakening our export position. Import quotas on petroleum, for example, push up fuel costs for our manufacturing industries and the "voluntary" quotas on steel have enabled increases of steel prices to occur which have raised input costs for our machinery producing industries. Our machinery industries, which are so important in our export trade, are competing with foreign producers who are able to buy fuel and steel at world market prices.

Protectionist Policies will Reduce the Participation of the United States in World Trade and Thus Lower its Rate of Growth and Income

Textbook writings on international trade and the current arguments of those favoring increased protection have one thing in common. Both view international trade as leading to a form of specialization in which some industries expand in each country while others contract. To some degree, this is still a correct view. It is likely, for example, that under free trade the textile industry and the steel industry in the United States would grow smaller than they are today while the machinery industries would expand.

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[12] The only exception to the price raising effect of tariffs or quotas occurs when they have no protective effect. If U.S. wheat, for example, is selling at world prices or lower, a quota on wheat imports will never have to be administered and will have no impact on the U.S. price. Few of the claimants for protection, however, would be interested in measures that did not restrict the foreign supply to the U.S. market.

However, there is a large and growing form of international trade that does not take this character at all. The trade between the great industrial countries is increasingly taking the relatively new form of intra-industry specialization. It is based on the economies of long production runs for particular variants of products. It owes its origin to the evergrowing variety of specialized materials and machines which is emerging to provide a more and more varied and sophisticated bundle of consumers goods and to meet the needs of industry for labor-saving cost-reducing methods of production. How can this great growth in variety of output be reconciled with the great economies that can be derived from long production runs? The answer for most producers is to concentrate on a limited range of product variants.

To see the impact that this has on international trade, let us consider, for example, the production of machinery for the use of such industries as printing, baking and pharmaceuticals. Such machinery is manufactured in the United States, the United Kingdom, Germany and other western European countries. However, in each of these countries the equipment is designed to meet local conditions such as the usual scale of output and the prevailing ratio of wages to capital costs. Each country could produce the whole range of equipment but in fact concentrates on the product variants most in demand in its own or in other nearby markets. Thus the European equipment is typically designed for smaller volume, lower speed and greater variety of purpose than the American equipment for the same industries. Trade arises because in each country there is likely to be some limited need for the kinds of machines produced abroad although the major need will of course be for the type of machine produced at home. Since the direction of technological progress is clearly toward more and more complicated and highly specialized machinery, the volume of intra-industry specialization may be expected to increase.

Intra-industry specialization in the trade among the industrial countries accounts for the apparently contradictory phenomena, that there is on the one hand a great similarity in the commodity composition of the exports of the industrial countries and that on the other hand a substantial fraction of world trade consists of exchanges between the industrial countries themselves.

The expansion of this trade is attractive not only because it lowers costs and raises incomes for the participating countries but also because it brings relatively few of the adjustment problems that are so difficult where specialization by whole industries is involved. From the standpoint of the U.S., it points also to a profitable avenue for the expansion of trade that does not depend upon the maintenance of the technological margin of superiority the U.S. enjoyed in the past.

The experience of the Common Market may again be taken as an illustration. Trade among the six countries tripled in the decade following the establishment of the Common Market in 1957. This expansion of trade was based on neither large technological gaps among the countries nor on the disappearance of entire industries as a result of inter-industry specialization.

Those seeking import limitations are asking the U.S., in effect, to sacrifice the chance to participate fully in this growing trade in an effort to protect the short-run interests of limited groups in the economy.

The Political and Diplomatic Costs of Import Limitations Would be Very High

Any marked movement toward further limitations on imports would, as already remarked, bring retaliations. There is a great danger that a trade war would be set off which would have the economic and political consequences in restricting world trade that would clearly leave all trading countries worse off. What is even more dangerous, however, is the broader impact upon the political leadership of the United States. The United States has in the community of nations stood for the principles of a competitive economy and for the reliance upon markets rather than upon governments for economic decision-making. We have put our great weight behind the reduction of trade barriers. A U.S. policy of protection where competition hurts some American workers and firms, and of free trade where it does not, will hardly strengthen our position of leadership. Rather it will strengthen the position of those cynics who argue that the United States has been using its great power to pursue its own short-run economic interests rather than as we claim to create a peaceful, prosperous and stable world.

IV. A TRADE POLICY FOR THE 1970'S IN THE NATIONAL INTEREST

The national interests of the U.S. lie in the direction of freer trade. The arguments for a contrary policy, it has been shown, are based on incorrect assessments of the facts, draw unwarranted conclusions from true statements of fact, or stress benefits that may be real and important but are either incapable of achievement or can be attained only at large economic and political cost.

The strength and pervasiveness of the present trend toward import limitations is evidence of the capacity of men to believe what it is in their economic interests to believe. It reflects also the hospitality the democratic political process gives to the efforts of organized groups to benefit themselves when the gain to them is large and the losses to others are widely distributed. Political leaders may have to yield to such pressures, but if so the only rational ground is a concern for a special interest or political necessity and not a concern for the national interest. Their need to yield may be less if the special and public interests are clearly distinguished.

V. SUMMARY

A new wave of sentiment in favor of import limitations has brought forward some new arguments for import limitations and revived some old ones.

The fundamental fact remains that every restriction of supply, whether it be applied to supply of domestic or foreign origin, helps the producers of the restricted products but only at the expense of everyone else.

Every current claim for protection, no matter what its guise, is a claim for special preference at the general expense.

Let us take the main current arguments for import limitations one by one.

U.S. Imports Have Risen More Rapidly than Exports in Recent Years; Our Trade Surplus is Much Reduced, and May Even be Eliminated or Turned into a Deficit

It is not at all clear that the U.S. balance of payments should in the long run have a trade surplus or that a trade surplus needs to be an objective of U.S. Government policy, but even if these points are granted they do not establish the case for import restrictions. Import restrictions will bring retaliation that will reduce the level of trade without any predictable effect on the trade balance. Furthermore, even if other countries were to permit the U.S. to improve its trade surplus through import limitation, item-by-item restrictions would provide neither an equitable nor efficient method. Discriminatory tariff increases or quotas favor the domestic producers of some goods over the domestic producers of others. They also require that the Government rather than the market place determine which imports will be reduced.

If the objective is really to improve the trade balance, a uniform ad valorem tariff surcharge and an export subsidy of the same amount would be more equitable and efficient. Other measures that would accomplish the same result include a depreciation of the dollar and the restriction of the U.S. price level to lower rates of increase than foreign price levels.

The United States Has, Over the Years, Given Many One-sided Trade Concessions That Have Opened its Markets to Foreigners While U.S. Exporters Find Themselves under Serious Handicaps in Foreign Markets

The pervasiveness of this view in the U.S. is remarkable in view of the almost absolute lack of evidence to support it. The available evidence does not indicate that U.S. tariff levels are now substantially lower than those of other major industrial countries or that they have been so reduced in recent years as to enhance substantially the price competitiveness of foreign goods in the U.S. market place. Certainly the disappearance of the U.S. trade surplus since 1964 cannot be explained on these grounds. Tariff changes have had on the average small effects on the landed dollar prices of foreign goods and have been accompanied by roughly equal advantages for U.S. exporters. Much has been made of non-tariff barriers, but, if anything, U.S. non-tariff bariers have increased since 1964 relative to foreign non-tariff bariers. Furthermore, the only attempt to estimate the overall level of effective protection inclusive of tariff and non-tariff barriers, made for the U.S. and the U.K., does not show any great difference between the two countries. This is not to deny that non-tariff barriers have been growing in importance, both at home and abroad, relative to tariffs, nor is it to claim that the non-tariff barriers of Japan and the EEC are not more restrictive than those of the U.S. It is to say that claims that foreigners have one-sided access to the U.S. market are at the minimum grossly exaggerated.

Imports Have an Unfavorable Impact on Employment, Particularly Since They Tend to be Concentrated in Labor-intensive Products

It is true that international trade enables us to export the goods of 1000 manhours and receive back goods that would require more than 1,000 manhours to produce. This is our gain from trade. Every internal improvement has the same effect; we get more goods per manhour. The optimum way to full employment does not lie in make-work policies such as excluding labor-intensive imports or forbidding new labor-saving machines. Protection of labor-intensive industries is certainly not in the best interests of U.S. labor in any long run sense; it leads to the preservation of low-wage jobs which would disappear in a free market and be replaced by higher wage jobs. In my home state of Pennsylvania, the textile workers of yesterday were injured when the textile industry moved south but their successors today are better off than they would be if there had been government intervention to keep the textile industry in Pennsylvania; they are working at better paying jobs in new or expanded industries that are competitive and can export different products to the rest of the U.S. and to the world.

Foreign Competition is Unfair because it is Based on Low Wages

The wage advantage that foreign industries enjoy is no more unfair in a relevant economic sense than is the advantage of superior capital resources or of sophisticated technology enjoyed by many U.S. industries. No sound policy can be based on the principle of eradicating all the economic advantages possessed by any contestant in order to run a sports-like competition that gives an equal chance to all entrants. It is precisely by capitalizing upon the special advantages enjoyed by workers and producers everywhere that we can maximize output per unit of input.

The advent of the Multinational Corporation Has so Changed The Nature of Trade Relations that the Case for Freer Trade Has Been Made Irrelevant

There is no evidence that the multinational corporation is immune from the economic forces that determine which goods can be most cheaply produced in which countries. On the contrary, it seems likely that the multinational corporation provides decision-makers with better information about the most advantageous location of production than was previously available. Components, such as the Ford engine for the Pinto, are produced abroad when they can be made cheaper.

The effects of multinational corporations on the U.S. trade balance are very difficult to estimate, but multinational corporations can hardly be held responsible for import problems in textiles and a number of other areas where the domestic industry has been in difficulty and has sought protection. In most of the areas in which multinational corporations are important, the U.S. has a strong export position.

In any case, the injury to U.S. interests of which multinational corporations are accused by those seeking trade restrictions is not different from others independently claimed as a basis for import limitations and already discussed—e.g., a reduced U.S. trade surplus and job displacement.

The National Security of the United States Requires that Some Industries be Protected

The national security argument is sometimes applied to natural resource products such as petroleum and sometimes to fabricated products such as steel.

In the case of a natural resource product, it has never been satisfactorily explained how a program which encourages the use of domestic reserves rather than the use of the foreign product will assure adequate domestic supplies in case of an emergency. If national security is dependent upon the ready domestic availability of large quantities of petroleum, what is really called for is a program of subsidization for the exploration of petroleum reserves in the United States and a program that would restrict domestic production to the levels necessary to keep a domestic petroleum industry operational and capable of sudden and large expansion in the event of necessity.

In the case of a manufacturing industry, such as the steel industry, it is argued that protection is necessary to maintain skills that would be lost were the industries subject to unrestricted import competition. In fact, the wartime experience of the United States, like that of every other country, including England, Germany, and Japan, demonstrates very clearly that human skills and ingenuity manage very quickly to produce whatever is needed in wartime.

The national security argument is also weakened by the diminished likelihood of a large-scale conventional war of long duration. A major nuclear war would be brief and horrible and its outcome would not be affected by the size of particular domestic industries such as oil or steel. Non-nuclear wars restricted to particular regions are unlikely to leave the U.S. cut off from all foreign sources of supply.

Protection for national security purposes is also counterproductive politically and diplomatically. Further action to limit steel imports, for example, would strengthen the divisive forces affecting our relations with friendly countries.

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The national interests of the U.S. lie in the direction of freer trade. The arguments for a contrary policy, it has been shown, are based on incorrect assessments of the facts, draw unwarranted conclusions from true statements of fact, or stress benefits that may be real and important but are either incapable of achievement or can be attained only at large economic and political cost.

The costs include the reduction to the stimulus to innovation, less consumer choice, higher prices, lower exports owing to higher costs and to the exclusion of the U.S. from the growing volume of intra-industry trade, and the deterioration of our relations with friendly countries.

Import limitations involve the use of government power to promote special interests at the general expense.

THE GUEST WORD

The US Trade Deficit: A Cause for Alarm?*

BENJAMIN J. COHEN

Is the recent deterioration of the US trade deficit a cause for alarm? My own view is that the dangers of the situation are easily exaggerated. That our deficit is large—exceptionally large—is certainly evident. Never before in this country's history has there been such a massive gap between our exports and our imports. Indeed, until as late as 1971-72, we had never in this century even experienced a negative trade balance. In 1973, largely as a result of two devaluations of the dollar, we were back in surplus again; and after an oil-induced deficit in 1974, we enjoyed another surplus in 1975. In 1976 the deficit was only about $5 billion. Last year, by contrast, the deficit was $27.6 billion, and a comparable excess of imports over exports is expected for this year as well.

Large as these figures are, however, they do not warrant a panicky revision of current US policies, despite recent turbulence involving the dollar in the foreign-exchange market. Most of the deterioration of our trade balance since 1975 is attributable to quite special factors, such as the recent wave of good harvests around the world, sharply reducing American agricultural exports in both volume and price, and the continuing increase of our dependence on foreign energy sources. Oil imports in 1977 topped $44 billion, up more than $10 billion from a year earlier.

One special factor of particular importance has been the difference in timing of cyclical developments in the United States and its major trading partners. Economic recovery from the recession of 1974-75 not only began earlier in the United States than elsewhere but also has been more sustained and vigorous. In

*Reprinted with permission of Fletcher Forum from vol. 2, May 1978 : 238–241.

most other industrial economies, growth rates are still substantially below those typically achieved during the years prior to the 1974-75 recession. Expansion of real output in the 24 member-countries of the OECD in 1977 was only 3½ percent, down from 5¼ percent in 1976. Performance in the largest of the industrial economies was particularly disappointing. In Britain, France, and Italy, real expansion was virtually nil; in Canada, Germany, and Japan, it was well below what had been hoped. Only in the United States was there any marked buoyance in the growth of output and final demand (topping 5 percent for the year as a whole). And this of course is what accounted for a very large part of the increase of our trade deficit. Inventory building and increases in personal consumption expenditures at home stimulated demand for imports of industrial materials and consumer goods (as well as fuels), while US exports, particularly of capital equipment, were severely hampered by the weakness of investment demand abroad. But for such differences in conjunctural (medium term) conditions here and abroad, our deficit would have been far smaller than it actually turned out to be.

A second reason for taking a relatively more sanguine view of the present deficit is that it is in fact *needed*. From a global macroeconomic point of view, the deficit is decidedly a Good Thing. The counterpart of continuing current surplus among the OPEC group of countries must be a collective deficit for the rest of the world. This deficit cannot be avoided: it can only be shared. And if a large part is not shared by the world's strongest national economy, proportionately more must fall instead on weaker economies, some of which may no longer be either able or willing to carry such a heavy burden.

Already many oil-consuming countries have built up a crushing burden of external debt in financing their oil-induced deficits since 1973. Many others have avoided substantial cumulative deficits abroad only by severely suppressing their growth rates of real output and final demand at home. Dissatisfaction with both these unpleasant policy options is growing; and in the search for alternative policy instruments that would enable them to avoid both additional foreign debt and continued domestic stagnation in the future, foreign governments increasingly seem to be looking toward the escapist solution of protectionist trade measures of various kinds, including competitive depreciations of exchange rates. This is a very real and present danger to the liberal international economic order, and it can be forestalled only if the world's strongest national economies relieve some of the pressures on weaker countries by assuming a larger share of the oil-consumers' collective deficit. This, in effect, is what the United States is doing. Far from threatening America's ability to exercise continuing economic leadership in the world, the deficit in fact consititues the very essence of economic leadership in present circumstances. America's deficit helps to keep the world away from the slippery slope of commercial protectionism and competitive depreciations.

Does that mean, then, that we can afford merely to stand pat? Not at all. These are not times for complacency (least of all in the energy field, where our growing dependence on foreign oil is clear evidence of the need for an effective domestic energy policy). I am not advocating a policy of benign neglect. Quite the contrary, in fact. For even if it is true that the present trade deficit signifies no serious deterioration of our competitiveness in international markets, the deficit remains—and because of that deficit the fact remains as well that we are facing here at home a groundswell of protectionist pressures in many of our own exporting and import-competing industries, from shoes and textiles to electronics and specialty steels. These protectionist pressures must be resisted. How?

In my opinion, they can best be resisted by persuading other strong national economies to shoulder a larger share of the collective deficit of oil consumers. This means, in particular, the two so-called "locomotive" economies of Germany and Japan, both of which in fact have lately been running surpluses rather than deficits on current account. In 1977, the German current surplus approached $2½ billion; the Japanese, a whopping $11 billion. Both surpluses were perverse from a global macroeconomic point of view. Both directly reflected relatively sluggish growth performance in these two economies. As Carter Administration spokesmen have repeatedly pointed out (to fierce German and Japanese objections), what is obviously needed is more direct demand stimulation in both countries to help encourage additional purchases from outside their own frontiers (including the United States). One effect of accelerated expansion in Germany and Japan, apart from the growth stimulus provided to other weaker economies, would almost certainly be to reduce the trade deficit of the United States by narrowing the disparity between us and them in conjunctural conditions. Promotion of reflation in their two economies therefore is the key to defusing our own problem of swelling protectionist pressures.

Of course, one might ask: why rely so heavily on differential demand-management policies? Why not rely on a differential movement of exchange rates instead, via either appreciation of the mark and yen or depreciation of the dollar? The answer is: because this seems to be the way the adjustment process works. According to recent studies by the IMF and the OECD, such adjustment of trade balances as has occurred among industrial countries in recent years has been almost entirely due to differential movements of real domestic demand. Although nominal exchange rates have varied considerably since 1973, their changes have been confined mainly to off-setting—or being offset by—domestic cost and price inflation, with relatively few lasting effects on trade account. "Real" exchange-rate movements, in the sense of sustained shifts in relative cost-price positions, have been comparatively small. This suggests that it is best to focus directly on real output and final demand in each economy, rather than on the nominal exchange rates of currencies, if the pattern of current-account deficits among countries is to be genuinely affected on a lasting basis. And that pattern must be affected if the liberal international economic order is to continue to be viable in present circumstances.

The Need for a New Export Policy*

Statement of Hon. C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs

President Carter announced a new export policy for the United States on September 26 for two basic reasons.

First, improved export performance is an integral component of our overall effort to strengthen and stabilize the dollar in the foreign markets. The President has personally and repeatedly expressed his concern about the dollar, most recently before the Annual Meeting of the International Monetary Fund and World Bank on September 25. A major cause of weakness in the dollar has been the large and growing deficit in our trade balance and current account. The most constructive way to deal with those deficits is to expand U.S. exports.

It is important to note that recent trends in the trade balance, and the outlook, are encouraging. In each of the last two three-month periods, the average monthly trade deficit declined by half a billion dollars from the previous three-month period: from $3.1 billion in December 1977–February 1978 to $2.6 billion in March–May 1978 to $2.1 billion in June–August 1978.

For next year, the current account deficit should continue to decline as a result of faster growth abroad, somewhat slower growth in the United States, and the increased price competitiveness of U.S. goods. We believe the deficit could decline by 30–40 percent in 1979. Other observers—such as the IMF, OECD and Morgan Guaranty—foresee an even greater reduction in the deficit, ranging between 50–67 percent.

Nevertheless, the United States needs to take new export initiatives. We need to assure that recent trends are continued. We need progress beyond even the most optimistic numbers envisiged for 1979. And we must realize that, whatever the outcome in the short run, U.S. export performance must improve significantly for long-run reasons.

This is the second basic reason for our new export policy. The external economic position of the United States is undergoing an important long-run, structural change. The sharp increase in our dependence on imported oil and, to a lesser extent, other products, means that the share of imports in our GNP has risen sharply. There must therefore be a concomitant rise in the share of exports in our GNP—where each single percentage point now means over $20 billion, enough to completely eliminate our current account deficit even at this year's record level.

The trade deficit was a long time in the making. Correction of the deficit will take time. But the clear message, both from the exchange markets and from our trading partners, is that we must act in a forceful and decisive fashion to do so. The new export policy is an important part of the Administration's response.

THE EXPORT PROBLEM

The United States has simply never had to emphasize exports as much as other countries. Most U.S. manufacturers have been content with supplying the large U.S. market and have never really focused on exports. Our growing economic dependence on the rest of the world now dictates that we become more attuned to exports—just as we must learn to use energy more efficiently and just as some of our major trading partners, notably Japan, must become more attuned to imports. The measures announced by the President on Tuesday do not offer a quick fix, for the simple reason that they address a long-term structural problem.

Over the past two decades, U.S. exports have grown at only half the rate of other industrial nations. The U.S. hit a low point of 19.2 percent in 1972, and then rose to 21.1 percent in 1975. Since then, our export share fell again to 18.9 percent the lowest since mid-1972.

Our competitors, by contrast, have managed a real export growth rate (even excluding their exports to the United States) of nearly 4 percent per year since 1974 despite slow worldwide economic growth.

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*U.S. Congress. Joint Economic Committee. Subcommittee on International Economics. Exports: Time for a National Policy. Hearings, 95th Congress. 2d session. September 29, 1978. Washington, U.S. Govt. Print. Off., 1979. p. 76–78.

There are several reasons for these developments. Our major markets, such as Canada and Latin America, have grown more slowly than the major markets of some of our competitors, differential growth rates have cost our trade balance about $10-15 billion. The substantial appreciation of the dollar in 1975, at a time when our inflation rate was higher than that of other countries, hampered our price competitiveness in the recent past; it probably cost the trade balance about $5-10 billion. A number of advanced developing countries (ADCs), primarily in East Asia, have seized a significant market share from all industrialized countries. And the exchange rate changes of late 1977-early 1978 are distorting short-run trade shares which are calculated in value terms expressed in dollars. But our deep-seated national indifference to exports—both in the private sector and in the U.S. Government—has clearly played a role. Such indifference is now simply too costly.

INCREASING U.S. EXPORTS

A better export performance by the United States would spur growth in our economy and create jobs. Stronger exports would help stem the decline in the value of the dollar and thus fight inflation. But increasing our exports presents a major challenge to business, to labor and to the U.S. Government. It requires attention to many factors—including productivity, price competitiveness, industrial innovation and initiative, and Government policies.

A key determinant of U.S. competiveness abroad is the productivity of our domestic economy. Productivity largely depends on new investment. In the last five years, productive capital per worker has been virtually stagnant—resulting in a sharp reduction in productivity growth. The Administration's tax recommendations sent to the Congress this year are designed to stimulate capital formation and national productivity.

Another determinant of U.S. competitiveness abroad is the rate of inflation. Excessive inflation here, particularly by comparison with Germany and Japan, has eroded our international competitiveness. The President's anti-inflation program will consist of a broad set of measures designed to bring down the U.S. inflation rate. As those measures take effect, our trade position will improve.

The United States has traditionally enjoyed a comparative advantage in high technology exports. To assure that this advantage is maintained, we have established a task force to examine both public and private research and development efforts. The task force will concentrate inter alia on regulatory policies that stifle U.S. inventiveness. Its proposals will further strengthen our economy at home, and our ability to meet competition from abroad.

We are also taking important international initiatives to improve U.S. export performance. Trade restrictions imposed by other countries inhibit our ability to export. Tariff, and especially non-tariff, barriers restrict our ability to develop new foreign markets and expand existing ones. We have been aggressively attacking these barriers through the Multilateral Trade Negotiations in Geneva. We are encouraged by the progress to date; the intensity of the negotiations will increase as we approach the December 15 deadline.

Foreign governments have increased the financial credits and subsidies offered to their own exporters, sometimes to the disadvantage of U.S. exporters. We have addressed this problem in three ways. First, we have negotiated an International Arrangement governing the use of government financing of exports. Second, in the Multilateral Trade Negotiations, we are negotiating an international code to restrict the use of government subsidies for exports—to assure that U.S. exporters do not face unfair competition. Third, if foreign government competition in the area of export financing cannot be restrained, we will match it as needed.

U.S. Government regulations have also had a negative impact on U.S. export performance. In order to achieve a varied range of foreign policy objectives, the U.S. Government has restricted the sales of certain items to particular countries. These policies have not only reduced sales directly. They have also had a chilling effect on other potential sales of unrestricted items.

The United States is gaining an image of being an unreliable supplier. Foreign purchasers, even though not currently restricted, may decide to buy elsewhere for fear that they may be cut off in the future. The new export policy seeks to confine the negative export impact of other policies to those few cases where vital national interests are at stake.

THE OUTLOOK FOR THE FUTURE

All these efforts are important elements in our attempt to increase U.S. exports. But they are not sufficient in themselves. America's export priorities must be changed.

In the course of Government policy-making, export consequences are frequently outweighed by other national objectives. Business, as well, too often places insufficient priority on exporting. Too many companies do not believe that exporting is worth the effort.

International economic changes over the past year have altered the fundamental conditions. U.S. businessmen need to take a new look at these changed conditions.

First, changes in the value of the dollar in relation to the currencies of some of our major trading partners have dramatically enhanced the price competitiveness of U.S. goods. U.S. manufacturers who may not have been competitive a year ago may now find they can compete quite successfully. A U.S. manufactured item selling for $100 in June 1977 cost 235 German marks or 27,200 Japanese yen. That same $100 manufactured item today costs only 196 German marks or 18,800 Japanese yen, declines of 16.6 percent and 30.9 percent respectively. Thus U.S. products are significantly more competitive in Germany and Japan as well as against products of those countries in third markets.

Second, the wage gap between U.S. workers and workers in other countries has been closing. No longer is it cheaper to manufacture many products abroad and import them into the United States. I[illegible]an wage rates have jumped from 53 percent of the U.S. wage in 1977 to 72 percent in August 1978. Wages in Germany are now equal to or higher than in the United States for several industries. This a significant factor that both U.S. and foreign firms take into account when they consider whether to locate a new plant in the United States or abroad.

Third, we are doing something right. A hundred or so U.S. firms have made major inroads in world markets. The share of exports in our GNP has increased significantly in recent years—rising from 4.1 percent in 1971 to 6.4 percent in 1977. But this share needs to rise even further; every percentage point will add over $20 billion of export sales, enough to completely eliminate our current account deficit even at the peak levels of 1977 and early 1978.

It is clear that the U.S. current account deficit is too large. Recent exchange rate adjustments have helped, but additional public and private measures are needed. Those measures should be targeted directly at our trade problems—be they oil imports, excessive inflation in the United States, or inadequate export growth. The new export policy is a critical element in this overall strategy.

FREE TRADE VERSUS PROTECTIONISM: AN ANALYSIS OF THE ISSUE*

(By Raymond Ahearn)

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FREE TRADE VERSUS PROTECTIONISM: AN ANALYSIS OF THE ISSUES

I. INTRODUCTION

In the aftermath of the OPEC oil price increase and resultant worldwide recession, both of which helped foster high levels of unemployment and large imbalances in world payments, free trade or trade liberalization policies have been compromised in many different countries. A recent International Monetary Fund report determined that in 1976, despite an increase in world trade, a large number of countries and a greater proportion of world trade became more subject to restrictive policies.[1] This, according to the report, related especially to an increasing number of non-tariff barriers to imports, which were supported to a greater extent by the negotiation of export restraint agreements. In the words of a leading business journal, a movement toward "creeping cartelization" of international trade is taking place. Although there is no real way of quantifying and comparing degrees of liberal trade versus protectionist policies in specific countries, it is evident that industries in most industrialized countries have increased their demands for protection from what are labeled as low-cost and job-destroying imports.

In the United States, the Administration is committed to supporting a liberal trade policy. This is particularly evident by a commitment to pursue a substantial liberalization of trade through the multilateral trade negotiations presently taking place in Geneva. At the same time serious problems of import competition are being experienced by many industries in the United States. Import-sensitive industries such as footwear, television, textiles, steel, and sugar, have attempted to obtain protection from foreign competition. In arguing for protection, spokesmen for the producers and the workers often put forth arguments which challenge a liberal trade policy. The intellectual debate for each of the import problems tends to be cast within the classical free-trade-protectionism framework—the issues of which are examined below in detail. This debate, which raises many controversial and unresolved questions, has great significance for understanding the background and basis for almost all trade policy issues. It should be emphasized that this analysis does not encompass in any detail the broad political and foreign issues of trade policy (e.g. treatment of Communist countries, trade embargo, and preferential tariff treatment of developing countries).

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[1] International Monetary Fund. Exchange Restrictions: 28th Annual Report, pp. 4–5.

*U.S. Library of Congress. Congressional Research Service. Free trade versus protectionism: an analysis of the issue [by] Raymond Ahearn. [Washington] 1978. 34 p. Report no. 78–32 E.

This analysis is not intended as a critique or a prediction of the future course of U.S. trade policy. Nor is it designed to understand the trade policy formulation process. Rather its goals is to shed light on why the free trade—protectionism controversy persists and to outline what issues are at stake. As in any continuing public policy controversy differing perspectives with regard to the role of varied objectives and goals of society are fundamentally at issue. Different economic and social assumptions and facts are marshalled by free trader and protectionist alike to support their arguments. In terms of objectives, the free trade view places heavy emphasis on the goal of economic efficiency and reliance on the market mechanism while some of the more powerful protectionist arguments stress other objectives such as job security, community ties, status and income distribution. Simply given these conflicting evaluations of social priorities, it is understandable why the controversy has persisted throughout the history of the United States.

II. THE GAINS FROM INTERNATIONAL TRADE

Simply stated, international trade (just as interregional trade) occurs because no country is equally efficient in the production of every commodity. Each country has different advantages (location, climate, skilled labor, capital, technological superiority etc.) that allow it to produce a given product at less relative cost than another country can. The essence of comparative advantage does not require each country to produce every item which it can produce more efficiently (in an absolute sense) than another country. The gain rather comes from concentrating on those activities in which the country can produce a given product at a unit cost which is lower in relative terms (that is, compared to the cost of production of alternative goods it can produce) than is the case in other countries (regions). Thus, each country should concentrate on producing those goods in which it has this so-called compartive advantage, and trade them for those products in which another country has such advantage. In the end, all will gain.. Proponents of trade liberalization or freer trade maintain that such policy will lead each country to obtain, given available resources, a higher level of consumption and production than would take place without trade.[1]

Consumption gains arise because consummers can obtain a larger quantity and variety of products at lower prices.[2] Production gains arise because of improvements in efficiency obtained through specialization. Just as important, imports provide competitive pressures on U.S. industries which tend to limit price increases (i.e. limit inflation) and encourage greater productive efficiency and innovation. Subcompact automobile imports, for example, helped pressure U.S. producers into building smaller cars.

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[1] A formal explanation may be found in Sodersten, Bo. International Economics, p. 64–73.

[2] Most observers maintain that imports bring great benefits to American consumers. Yet some individuals and groups maintain that the presumed lower cost of imports is not passed on to the consumer, but merely results in higher markups and profits for the seller. One recent committee print, U.S. Congress. House. Ways and Means Subcommittee on International Trade. Library of Congress Study on Imports and Consumer Prices, p. 10, citing the lack of satisfactory data, called for further study by a committee of Congress or the International Trade Commission on the relationship between imports and consumer prices.

The bottom line of the free trade viewpoint is really an efficiency argument for the optimal allocation of resources within a society. Assuming that the costs of restrictions are significant (however measured), the question arises why protectionism in the form of governmental decisions and pleas by various groups within societies exists. There are two basic explanations of the protectionist phenomenon.

The first deals with qualifications to the free trade doctrine which tend to compromise or make less clear the gains from international trade. The second involves arguments for protectionism, most of which entail different objectives of various individuals or groups within society.

III. QUALIFICATIONS TO THE FREE TRADE DOCTRINE

No country completely adheres to the free trade doctrine. Many contemporary free traders have reservations about the free trade ideal, often because of the doctrine's dependence on many restrictive and somewhat unrealistic assumptions. Some of the assumptions most often held up for attack include (1) immobility of the factors of production (land, labor, capital) among countries; (2) income distribution within countries; and (3) equilibrium exchange rates.[1]

1. Factor immobility among countries.—During the development of the theory of comparative advantage in the 19th Century, trade was largely limited to raw materials and finished goods, and the amount of capital, labor, and land was assumed to be fixed for each country. In today's world, however, a great variety of goods are produced and many intermediate parts of components are traded, often between parent and subsidiary of a multinational corporation (MNC). Moreover, because of the rapid growth in transfers of capital, skills, and technology abroad, generally by MNCs, it can no longer be realistically assumed that the factors of production of individual countries are fixed.

Minimally, what is clear from these changes is that greater factor mobility makes perception of the comparative advantages of various countries less clear and more difficult to discern. In addition, a world of rapid transfer of capital and technology is likely to lead to more rapid changes in the comparative advantages of various countries. This in itself potentially could cause displacements of specialization and trading patterns more rapidly and with increased frequency.

2. Income distribution.—Through international specialization in production and trade, production of exports or commodities in which a country has a comparative advantage expands, while production of imports or commodities in which a country has a comparative advantage contracts. This leads to a redistribution of national income with the incomes of those factors in export industries expanding while incomes of those engaged in import-competing industries are falling.

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[1] A listing of assumptions built into the model can be found in Heller, H. Robert. International Trade: Theory and Empirical Evidence, p. 5–6.

The implication is clear; import-competing industries might be better off seeking to prevent trade liberalization. In addition to those who compete directly with foreign firms for sales in the home market, domestic firms supplying the import-competing firms with raw materials and components may also tend to support restrictive trade policy based on a perception of their own economic self-interest.

3. Equilibrium exchange rates.—During the development of the classical free trade model, gold formed the standard of value on which each national currency was based. As a result, currencies tended to be exchanged at "equilibrium" rates, i.e. exchange rates which are likely to reflect the true intrinsic currency values of each country. With the breakdown of the gold standard, exchange rate determination became increasingly subject to political manipulation. The absence of a mechanism for assuring equilibrium exchange rates severely jeopardized the case for free trade in the 1960's and continues to be a concern today. Overvalued currencies (as the dollar was in the 1960's) discriminate unfairly against home country exports and tend to exacerbate the problems of import competition. Conversely, undervalued currencies (as the Deutsch Mark was during the 1960's) provide a huge subsidy to export-oriented industries and shield import-competing industries from foreign competition. A world monetary system which produces equilibrium exchange rates, thus, is crucial to the free trade theory of expanding and mutually beneficial trading relationships. Imbalanced exchange rates, on the other hand, tend to distort the natural lines of comparative advantage.

In summary, the above qualifications and reservations to the classical assumptions of the pure theory of international trade do not necessarily undermine the theory's fundamental validity. Most of the assumptions can be modified or qualified so that the central notion—that there are mutual gains from international trade—is still valid. But in practice the mere fact that there are substantial qualifications weakens the impact and certainty of the gains from trade and trade liberalization policies.

IV. ARGUMENTS FOR PROTECTIONISM

Restrictions on trade, such as tariffs and non-tariff barriers, tend to eliminate both the production and consumption gains from trade. One study estimated that these costs for the United States reached between $10 and $15 billion annually.[1] A second study estimated the total costs to the United States of existing tariff and quota barriers to trade to average from $7.5 billion to $10.5 billion per year.[2] Although there are problems with the validity of any estimates of this nature, the question arises, given the significant welfare gains from free trade, why protectionism, in the form of governmental decisions and pleas by various groups within societies, exists? Most commonly, the arguments from protectionism or conversely the rationale for departures from the free trade position are based both on national self-interest and also the self-interest of various groups and individuals within a society.

A. Changing economic factors and national self-interest

A country's interest and commitment to free trade may vary over time, depending on a variety of changing factors. Shifts or changes in balance of payments positions, particularly merchandise trade balances, terms of trade, domestic economic situation, and other national social and political objectives may all influence a country from time to time to oppose trade liberalization efforts or to increase trade restrictions.

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[1] Bergsten, C. Fred. The Cost of Import Restrictions to American Consumers, p. 4.
[2] Magee, Stephen P. The Welfare Effects of Restrictions on U.S. Trade, p. 701.

1. Trade balance.—A balance of trade deficit often tends to foster pressures for increased trade restrictions designed to cut expenditures on imports or to provide increased export promotion efforts. The United States, which incurred a $26 billion trade deficit for 1977, is currently experiencing both pressures. It is often argued that an increase in trade restrictions will reduce the value of imports and improve the trade balance. Similarly, an attempt to promote exports would also improve the trade balance.

On the import side, it is often argued that several factors will negate the intended effect. The first and most direct countervailing effect is associated with the possibility of retaliation against the country's exports. Additional factors could lead to a reduction in the country's exports. A reduction in imports would lead to reduced foreign exchange earnings in the rest of the world and, thus, lessen other countries' ability to pay for imports by causing a shortage of dollars abroad from the United States. A reduction in U.S. imports, under an international monetary regime of flexible exchange rates, would tend to lead to an appreciation of the dollar. This in turn would lead to increased U.S. imports. This same exchange rate mechanism would tend to undermine attempts to narrow the trade balance through export promotion efforts. As U.S. exports are promoted and increase in value, the dollar exchange rate would tend to appreciate and undermine the competitiveness of U.S. exports. It is thus often argued that policies designed to insure flexibility in foreign exchange rates or other fiscal and monetary policies concerned with balance of payments equilibrium are more appropriate than trade restrictions to cure a balance of trade deficit.

2. Terms of trade.—A country may under certain conditions be able to improve its terms of trade (basically obtain more units of imports for the same units of exports) or material well-being by imposing restrictions on its exports or imports if such action would result in a decline of the products it buys from abroad or a rise in the prices of its exports. Sufficient monopoly power is needed for such a policy. If foreign countries do not retaliate, such policies would tend to improve the terms under which exports exchange for imports in the international marketplace, and hence improve the aggregate level of real income of the economy. Cartels and producer associations, such as oil and coffee respectively, engage in such practices, improving member countries' terms of trade in the process.

A subpart of this argument applies to the United States' alleged monopoly power in the development of new products. While these products of the United States are still new, monopolistic prices can be charged. It has been argued that such gains have been undermined in recent years by the increased speed and rapidity with which multinational corporations transfer technology abroad. Organized labor is apprehensive about what this technology means for U.S. employment and real wages.[1] Organized labor thus often makes arguments to restrict technology, capital, and trade flows in an effort to prevent this from happening.

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[1] Cooper, Richard N. Economic Assumptions of the Case for Liberal Trade, p. 28.

3. Domestic economic conditions.—A country's decision to take a more protectionist position may be caused by domestic economic conditions—particularly inflation and unemployment. High inflation rates tend to deter countries from raising import restrictions, since such barriers cut back on the supply of imports and raise domestic prices. One interpretation is that many countries unilaterally reduced import barriers in 1973–74 because inflation had replaced unemployment as the most significant economic problem.[1] Canada and Australia, during this period, unilaterally cut tariffs while the United States revoked or suspended import quotas on oil, steel, meat, sugar and cheese. Simultaneously, a concern with domestic inflation often leads countries to apply controls on significant exports that might be in short supply domestically. The U.S. export controls on soybeans in 1973 is a recent example.

In a situation where a country is experiencing a high level of unemployment, countries might try to depreciate their currencies (which would make imports more expensive), increase import barriers, and promote exports through subsidies and other activities. Because an important assumption of the case for liberal trade is the full employment of a country's resources, a situation of persisting unemployment of crucial resources provides the circumstances under which a country may be better off to either restrict imports or subsidize exports.[2] The standard arguments for not erecting trade restrictions when unemployment persists are (1) that macroeconomic tools of fiscal and monetary policy are more efficient in stimulating aggregate employment and, (2) that trade restrictions may be offset by foreign retaliation.

4. National economic, social, and political objectives.—Both import and export trade restrictions are also imposed (or removed) from time to time to fulfill national economic development policies, national social and political goals or national defense needs. Protection for "infant industries", until that industry becomes internationally competitive; heavy tariffs or prohibitions on pornography or drugs; and import and export restrictions on various kinds of military hardware are all examples of trade restrictions arising because of national economic, social, or political objectives. The exclusion of Communist countries from receiving Export-Import Bank financing; the trade embargo of Cuba; antiboycott provisions in the Export Administration Act; and the elimination of OPEC countries from receiving preferential tariff treatment (GSP) for developing countries are all examples of recent U.S. actions which fit these categories. Examples from other countries similarly could be documented.

B. GROUP OR INDIVIDUAL INTEREST AND PROTECTIONISM

It is fairly easy to see why international trade leads some individual producers and labor groups to argue for increased trade restrictions. Most commonly, a producer or labor group arguing for protection takes a micro—as opposed to a macro-economic view of the gains from trade. Free trade versus protectionism arguments, thus often cast the rather all-encompassing and somewhat abstract national economic interest against the clearly defined self-interest of American workers and producers of a particular industry.

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[1] Bergsten, C. Fred. Ed. Toward a World Trade Policy: The Maidenhead Papers, pp. 97–107.

[2] Cooper, op. cit., p. 22.

The arguments, however, often entail philosophical assumptions which fall outside the realm of economic objectives, narrowly defined. The liberal trade assumption of increased consumption and production leading to satisfaction of human wants confronts different objectives of many of those directly affected by trade. Objectives such as job security and satisfaction from performing a particular job, community ties, and personal status all have to be weighed against the marginal welfare gains which liberalized trading relationships supposedly foster. In cases where different objectives are being weighed and considered, there simply is no scientific method for deciding how to rank social priorities. All that can be done is to describe the likely consequences and implications of particular arguments. This one can try to do by examining the four most common arguments articulated for protection and the most common liberal trade response. It becomes clear from an evaluation of the various arguments that the often presented dichotomy between the national economic interest and the self-interest of individual groups tends to be an oversimplification. Any action to raise or lower trade barriers may help producers and workers competing against the particular imported product by increasing domestic production and prices. But often times the United States exports products (particularly raw materials and machinery) to the foreign producer of the import-competing product. U.S. exports also often use imports as components of a final product. Thus, any trade restriction, just as any effort to reduce trade barriers, will most directly help some groups and hurt others. Each group tries to define its interests to coincide with the national economic interest. The conflicting claims which result and, most importantly, the differing objectives and priorities of varied groups are the primary reasons why the liberal trade vs. protectionism controversy persists.

1. Domestic market share.—A common argument for protectionism relates to an alleged right of domestic producers to a certain percentage share of the domestic market. Recent examples include suggestions that foreign imports not be allowed to exceed anywhere from 10 to 50 percent of the domestic market for a given product or industry. This domestic market share argument often has national security or other noneconomic justifications. In national security terms, what are the political or military consequences of allowing complete dependence on foreign production of guns, aircraft, and fuels? The answer becomes much less clear, however, in evaluating domestic production of other items ranging from automobiles and apparel to pencils and umbrellas.

On noneconomic interpretation of the domestic market share view maintains that involvement in goods-producing activities (as opposed to services) are vital to the standard of living and quality of life in the United States. The critique is that "American society cannot prosper in the long run; if the national economy is dominated by hamburger stands, motels, importers, international banks, without the broad base of industries and production."[1] In strictly economic terms, it is difficult to see how the development of a more service-oriented economy would inhibit growth, yet it is for the sociologist to analyze what effect this trend might have on the quality of life. Here again it should be emphasized that the people in the goods producing sector can lose from liberal trade while producers of services are more unlikely to lose simply because services are not traded internationally. On the other hand, who is to say that the quality of relationships fostered by industrial production is not qualitatively different and more important than those of the service-producing sector?

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[1] AFL-CIO. An American Trade Union's View of International Trade and Investment, p. 80.

The liberal trade criticism of the domestic market share argument is that if greater self-sufficiency in all products is undertaken, the subsequent increased production of import competing goods will lead eventually to a transfer of resources away from the export sector. A country, unless it gives its goods away, can only continue to export by continuing to import. Exports, many economists would maintain, are the costs of trade while imports are the benefits. In other words, a country's welfare is determined not by what it produces but rather by what it consumes.[1]

2. *Fair trade.*—A common comment often expressed is that a particular individual or producer is not against international trade per se, but that it must be fair trade. The allegation is often made that the deck is stacked against the United States because foreign countries either pay "slave wages" or engage in unfair trading practices such as dumping and subsidies. Both charges are distinct and deserve separate treatment.

Criticisms of the low wage and low fringe benefit economies are often put forth to imply that the United States can lose by trading with such countries. The protectionist attempt is to equalize the costs of production between foreign and domestic producers. Such an equalization, however, would tend to undermine the basis for gains from trade.

The liberal trade critique is that wage rates reflect differences in productivity between countries. Such productivity differences are the essence of the international division of labor. U.S. exporters are able to compete with foreign producers who pay lower wages because of high productivity. Industries in the United States which generally find that high wages raise their costs above their foreign competitors tend to be low productivity industries. In fact, the highest wages in the United States are generally found in export industries, such as aerospace, electrical machinery and machine tools, and are a consequence of high productivity (output per man hour). U.S. exports generate much higher wages than U.S. import-competing industries because the U.S. exports largely high productivity and specialized products and imports low productivity and standardized products.[2]

The liberal trade policy prescription is to reallocate resources from low productivity to high productivity industries, a prescription which is increasingly difficult to implement in times of high unemployment. It also maintains that if the major concern is actually for the "inhuman" and low wage conditions of foreign workers, then increased and not decreased trade will lead to an improvement in their working conditions.

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[1] Reed, Lawrence W. Is There an Unfavorable Balance of Trade? p. 397–402.

[2] Branson, William H. and Junz, Helen B. Trends in U.S. Trade and Comparative Advantage, p. 285–345.

The liberal trade viewpoint has much more difficulty in responding to charges of unfair trading practices such as dumping of goods in the U.S. market and export subsidies from foreign governments. According to protectionist complaints, these devcies have no relevance to the liberal trade doctrine. Conditions and practices in the real world, it is alleged, have changed and undermined the validity of the free-trade doctrine.

There are basically three liberal trade responses to the increasing allegations of unfair trading practices. The first is simply that they should be negotiated away. The second is that there are existing anti-dumping and countervailing statutes which are designed to remedy situations where dumping and subsidies are being used. Protectionists, however, often indicate that reliance on existing statutory remedies and current procedures is time consuming, costly, and generally ineffective. Vigorous and aggressive implementation of existing statutes dealing with unfair trading practices, thus, is often called for. The problem, however, of vigorous enforcement against unfair trading practices is that if the defensive action is overly large, it can become a protectionist device in its own right. The problem, thus, of determining whether a particular action is fair or unfair is matched only by the difficulty of determining whether a reaction is purely defensive and justifiable or protectionist in nature.

A more extreme liberal trade viewpoint is that "fair competition" is not an objective in itself. The purpose of international trade is simply to obtain goods on the most advantageous terms. If foreign governments elect to subsidize U.S. consumption, then this country can increase its welfare by obtaining imports at bargain prices. In short, to interfere because a foreign producer has a cost or price advantage (for whatever reasons) is to undermine the very principle of specialization and trade.[1] Qualifications to this laissez-faire policy involve two circumstances: (1) monopolization of the import market by a foreign concern and (2) situation in which domestic producers are injured by a temporary influx of imports.[2]

3. Imports and jobs.—Perhaps the most important single item in the protectionist sentiment in the United States concerns the question of jobs. Many Americans, including many journalists and editors, hold the view that imports are bad and exports are good, primarily because of their job-displacing and job-creating effects. Currently, the huge 1977 $26 billion merchandise trade deficit contributes to the feeling that import competition must be limited or strongly regulated in order to preserve American jobs.

Great interest is presently attached to quantitatively ascertaining whether U.S. exports create more jobs than U.S. imports displace:[3] In making estimates of this sort, many arbitrary assumptions (e.g. concerning Government policy, prices, and technological relationships) have to be made and various complicated factors which affect both the net export creation and net import creation effects considered. For example, on the export side, jobs dependent on the import content of exports must be subtracted from the gross employment creation effect of exports. Similarly, on the import side, exports used as components or inputs in imports (e.g. U.S. leather exported to foreign shoe producing countries); jobs associated with noncompetitive imports (i.e. those products such as jute, bananas, and cashmere not produced domestically); jobs dependent on the marketing, transportation, and processing of imports; and jobs created by additional consumer expenditures made available by cheaper imports all should be subtracted from the gross import displacement figure.

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[1] Yeager, Leland B. and Tuerck, David G. Foreign Trade and U.S. Policy, p. 125.

[2] Wares, William A. The Theory of Dumping and American Commercial Policy, p. 88.

[3] For a summary of this voluminous literature, see U.S. Congress. House Ways and Means Subcommittee on International Trade, The Impact of International Trade on U.S. Employment: A Survey of Literature, p. 22.

Estimates which have been made of the net employment effect have ranged anywhere from large negative to substantial positive figures for given years. Even if these estimates did not entail many arbitrary assumptions and involve uncertain and complicated relationships for which confirming data are lacking, it is unclear whether any policy implications would readily and necessarily follow.

This is particularly true because a portion of the net import displacement estimates usually represents jobs that would be gained if imports were limited as well as jobs that are lost. The jobs gained or created portion assumes that domestic resources such as people with the required skills could be reallocated to produce the goods domestically without affecting export production.

In a practical sense, of course, any serious and extensive effort to replace imports with domestic production would likely lead to foreign retaliation against U.S. exports. The job consequences of such action are often cited by the administration in emphasizing that 1 out of every 6 manufacturing jobs in the United States produces for the export market.[1] There is also the Leontief paradox that $1 million of U.S. exports exceeds the labor requirements for $1 million of import-competing industries.[2] In addition, in a world of floating exchange rates U.S. exports would also tend to suffer as a result of import restrictions because of the tendency of the dollar to appreciate under such conditions. Most generally, the ultimate free trade argument is that exports are the price of imports and the restriction of one part of foreign trade is bound to affect the other.

Although estimates of various job creation or displacement due to trade are fraught with uncertainty, various econometric studies agree on one point: job losses caused by changes in domestic demand and labor productivity are much more significant (ranging from six to nine times more important) than job losses due to trade.[3] The overall finding of these studies is that the magnitude of job losses due to trade is not significant. This is a macro-economic point of view. Nevertheless, the impact of imports on particular industries (usually low-skilled and labor-intensive) is likely to be quite serious, mainly because imports are not distributed evenly across the whole manufacturing sector.

The point is important because aggregate import displacement data are meaningless to those most directly affected. A steel, television or footwear union, for example, obviously does not view imports from the broad perspective of the whole economy. They are concerned with the fate of their own jobs. A loss of a permanent job often entails loss of seniority, health benefits, and pension rights. As one commentator has stated, a job loss of 10,000 can ruin a union and twelve plant closings can bury an industry.[1] Who is to say, in the final analysis, that the workers values of economic security and stability should not be accorded a higher priority by society than the supposed higher welfare gains associated with increased trade? In practice, the liberal trade response is to advocate a program of adjustment assistance to help import-impacted firms and workers adjust to import competition, or to devise solutions which slow down or moderate the speed and rapidity with which job-displacements caused by international trade occur. In this context, it is increasingly argued that the acceleration of competitive pressures is in no small measure fostered by the increasingly important role which multi-national corporations play in transferring both capital and technology abroad.

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[1] Bergsten, C. Fred. Should U.S. Curb Imports? p. 25.
[2] Baldwin, Robert E. Determinants of the Commodity Structure of U.S. Trade, p. 126–146.
[3] Frank, Charles R. Foreign Trade and Domestic Aid, p. 23–39.

4. Foreign direct investment and jobs.—In addition to the potential displacement effects of imports, U.S. multinational firms which transfer production facilities abroad also displace American jobs. Very few dispute the fact that when a U.S. firm closes down a plant and relocates abroad, U.S. jobs are lost. The controversy, however, is whether movements of capital, technology and even licensing agreements results in a net reduction of U.S. employment opportunities. The reason the net impact is in doubt results from the fact that U.S. foreign direct investment can have both positive and negative effects on jobs.

In calculating the net effect of foreign direct investment on U.S. employment, three relationships have to be examined—two of which contribute positively (increase) U.S. employment and one which displaces (decreases) U.S. employment. Effects which increase employment include the following: (1) U.S. employment created in the production of U.S. exports which could not have occurred if U.S. firms were not operating abroad and (2) U.S. employment created of a managerial or service nature solely to carry out the firm's operations abroad. The job-displacing relationship entails an estimate of what would have occurred in the United States if the production of their foreign affiliates could have been carried out in the United States.[2]

The major problem in ascertaining magnitudes for the major relationships lies in trying to answer various hypothetical questions: What would have happened if U.S. multinationals had not invested abroad? Would U.S. firms have retained foreign market shares while continuing to supply it from U.S. plants, or would markets have been lost to foreign producers had the foreign investment not been made? One study, which made a variety of "reasonable" but unsubstantiated assumptions about each of the effects, found it was possible to derive estimates ranging from a net creation of 240,000 jobs to a net loss of 666,000 jobs. The study concluded that "unequivocal statements as to the impact of multinational corporation operations on domestic employment must be rejected, as they are, perforce, built on hidden or unhidden assumptions."[3]

The question, thus, of whether more jobs are created or destroyed by foreign direct investment is not easily answered. More evidence exists, however, on the occupational coverage (i.e., whether the jobs destroyed or created are similar or different). Most generally, the job-displacing effect will fall predominantly on both skilled and semi-skilled production workers, while, the job creation effects will benefit managerial, clerical and other professions (e.g., advertising, law).

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[1] Ross, Irvin's Labor's Big Push to Protectionism, p. 96.

[2] Hawkins, Robert G. Job Displacement and the Multinational Firm: A Methodological Review, p. 9-14.

[3] Ibid., p. 29.

Are these changes on balance good or bad? Here again it depends on the viewpoint taken, impacts analyzed, and the arguments utilized or ignored. If the concern is for the economy as a whole, the argument for free flow of capital abroad is similar to the economic reasoning that makes the case for free trade. If capital resources move where they are employed most productively, then such investment improves the allocation of the world's resources and represents a long-run benefit to the United States. If capital employed abroad makes a better return than capital employed at home, its employment abroad makes for a bigger domestic national income.[1] Concentration of resources where they will be relatively more productive is the central notion behind comparative advantage—which in theory leads to higher U.S. production and consumption.

Yes, the same theory which holds that the whole economy may benefit again admits that labor may be adversely affected if capital is diverted from domestic to foreign investment. One study argued that to the extent that domestic capital formation is displaced by foreign investment, the level of income originating in the U.S. as well as labor's share in national income will be reduced.[2]

There are other reasons why labor groups view the growth of foreign direct investment and the transfer of technology by multinational corporations with great alarm. Most fundamentally, job security and bargaining power may be affected by those developments. With capital, management, and technological extremely mobile across border, sharp changes in trade can occur, often displacing workers and particular lines of production with increased rapidity. If capital and technology were not free to go abroad, it is likely that U.S. producers would have to produce solely for the internal market. This would tend to improve the job security of the U.S. production workers in affected industries. The bargaining power of labor groups would also be strengthened if the U.S. firm could not threaten foreign expansion as a wedge against labor demands.[3]

It is clear from these observations that it is strongly within the interest of certain labor groups and producers to support stronger regulation of both imports and exports of technology and capital. Such demands for protection, however, raise fundamental challenges to the liberal world economy which U.S. trade policy has attempted to foster.

V. CONCLUSIONS

The policy issues surrounding the free trade vs. protectionism controversy involve trade-offs. There are economic gains to be realized from a liberal world trading economy. There are also undeniable costs of adjustment associated with trade liberalization, and changing international economic competitive conditions, most of which fall on individual workers and producers displaced by increased trade and investment. The problem most importantly is that the losers do not comprise the same group as the gainers; thus there is a basic conflict of interest between groups in any policy decision to either raise or lower trade barriers.

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[1] Yeager and Tuerck, Op. cit., p. 177.

[2] Musgrave, Peggy B. Direct Investment Abroad and the Multinational Effects on the United States Economy, p. XIX.

[3] Hughes, Helen, Ed. Prospects for Partnership: Industrialization and Trade Policies in the 1970's, p. 66.

The fact that there are gainers and losers in any decision to expand or restrict trade is not new. Jobs have been destroyed, particular product lines undersold, or particular skills and training made obsolete by increased international trade and investment for many years. What appears to be new is the quickened pace of these displacements in recent years. No one factor is primarily responsible for this acceleration. Significantly lower levels of growth both in foreign and U.S. markets, increasing levels of foreign direct investment, trade liberalization, and increasing supply capabilities of other countries often fostered by subsidies and aggressive pricing tactics are some of the primary reasons the impact of imports of the U.S. economy has become an issue of great interest.

The response by the United States to particular problems faced by import-impacted industries has been a mixture of both free-trade and protectionist policies. U.S. trade policy has consistently reaffirmed that a liberal worldwide trading network is necessary for providing maximum economic well-being to its citizens in the long run, and that a policy of completely limiting international trade and investment in an effort to avoid losses to individual groups in the long run would be counter-productive. Yet basic human values require that those workers and producers with obsolete skills or non-competitive products be compensated for their losses or allowed time to adjust to the new economic environment over a period of time.

In summary, the free trade-protectionism debate illuminates why trade policy in the United States over the years has reflected both elements of liberal trade and protectionism. Most all trade policy decisions must take into consideration these opposing philosophies. Specifically, the reputed welfare gains of liberal trade which accrue to the nation as a whole must be weighed against the losses incurred by particular firms and workers. This often entails the very difficult task of comparing and attempting to rank different social priorities.

Underlying the free trade-protectionism policy dilemma are many unresolved and difficult questions. Are the qualifications to the free trade doctrine sufficiently great so as to invalidate its major recommendations? Does the increasing growth of U.S. capital and technology flows undermine traditional trade theory? Does the continued growth of import-sensitive industries asking for protection indicate a decline in the competitive position of the United States? Should increased world and national welfare gains be given higher priority than the values of economic security and stability for particular workers and producers? Are there effective and feasible ways to compensate the losers from expanding trade so that everyone gains? Are full-employment, a growing world economy, low levels of inflation, equilibrium exchange rates, and effective adjustment assistance programs the necessary conditions for an open and competitive world economy? There are no simple answers to any of these questions, yet their interpretations by various groups will be fundamental to the resolution of trade policy issues in the future.

INCENTIVES AND DISINCENTIVES FOR U.S. EXPORTERS*

(By George D. Holliday)

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I. INTRODUCTION

In 1977, the U.S. trade balance was in deficit by $26.6 billion, compared with a deficit of $5.9 billion in 1976. The deficit is expected to be slightly higher this year before declining in 1979. The large deficits are a result of rapidly increasing imports accompanied by a poor export performance. The value of U.S. imports increased by 22 percent in 1977 (volume increased by 13 percent), while exports increased by only 5 percent (1 percent in volume).

All major categories of U.S. exports have experienced relatively slow growth. Agricultural exports, which grew rapidly in the early 1970s and now account for over 20 percent of the U.S. total, increased by only 5 percent in value in 1977. This slowdown was primarily due to improved harvests abroad and a general decline in prices paid for U.S. grains.

Non-agricultural exports rose by 5 percent in 1977, mostly because of higher prices. (Volume actually declined by 1 percent.) Typical of the trend in non-agricultural exports is the export performance of capital goods (such as machinery, aircraft and other transport equipment), which account for about one-third of all U.S. exports. In 1976 and 1977, capital goods exports experienced no real growth. A drop in the foreign sales of civilian aircraft was a primary cause for this poor performance. Other major categories of U.S. exports—industrial supplies, consumer goods and automotive products—increased slowly in 1977.

The increase in the overall U.S. trade deficit reflected a deterioration in the bilateral trade balance with all major world areas. While 1977 exports to OPEC countries grew substantially, they did not keep pace with imports from those countries. In trade with the largest U.S. trade partners—Canada, Japan and Western Europe—imports also grew faster than exports. Most observers attribute the poor performance of U.S. exports primarily to the slow economic growth and depressed demand in the economies of major U.S. trade partners. During 1977, U.S. industrial production expanded more than twice as rapidly as the average increase in other major Western industrial countries. As the differential between growth in the United States and the rest of the world narrows, the U.S. trade balance is expected to improve.

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*U.S. Library of Congress. Congressional Research Service. Incentives and disincentives for U.S. exporters [by] George D. Holliday. [Washington] 1978, 48 p. Report no. 78-251E.

Despite the expected improvement in the U.S. export performance, there is concern about the ability of U.S. businesses to expand exports rapidly enough to pay for the country's long-term import needs. Considerable attention has been focused on the various incentives and disincentives for U.S. exporters. Some observers maintain that the general domestic and international economic environment in which U.S. business operates is not conducive to an expansion of exports. Moreover, critics of U.S. Government policy in this area frequently maintain that U.S. export promotion programs are ineffective and that many laws and regulations have the effect of disincentives to export. These views are not shared by some economists, businessmen and policymakers. The latter emphasize the temporary nature of poor U.S. export performance. They frequently maintain that the flexible exchange rate regime under which the United States and its major trade partners operate will provide an automatic adjustment to the country's balance of trade problems.

The following is an overview of the various incentives and disincentives for U.S. exporters. Conditions in the general economic environment and those policies of foreign governments which affect the ability of U.S. businesses to export are discussed in Section II. The focus of this paper is on U.S. Government laws, administrative regulations and policies which have a significant effect on U.S. exports. Sections III and IV provide descriptions of these elements of U.S. export policy and an analysis of their effects on U.S. exports. Section V provides a discussion of the Carter Administration's program, announced in September 1978, to improve the Government's export promotion efforts and to remove some of the Government-imposed barriers to exporters.

II. GENERAL ECONOMIC ENVIRONMENT FOR U.S. EXPORTERS

In 1976, the United States exported approximately 6.6 percent of its gross national product. This compares with over 20 percent for West Germany, the United Kingdom and Canada and about 45 percent for the Netherlands. The primary reasons for the relatively small U.S. export/GNP ratio are evident. The United States is a large country, well-endowed with natural resources and a large, prosperous population which provides the largest single market for goods and services in the world. It also occupies a somewhat insular position with respect to the world economy. It is geographically remote from the major potential markets in Europe and Asia, and transportation costs for its exports are relatively high. Thus, geography alone has traditionally served as a major disincentive for U.S. exporters.

Traditionally, U.S. producers have profited by concentrating on meetings the needs of domestic consumers. For most businesses, success has been assured by designing products which satisfy the tastes of U.S. consumers and orienting corporate strategies to meet the special requirements of the domestic market. There has been little inducement to study the needs of foreign consumers or techniques for penetrating foreign markets. The risks, uncertainties and costs of selling in foreign markets have far outweighed the benefits of exporting. Many U.S. busine-sman has no training, experience or inclination to export.

Small- and medium-sized U.S. firms have special problems in exporting. Travel expenses, foreign market surveys, changes in product designs and packaging, provision of after-sales servicing and other start-up costs can be substantial. To penetrate a foreign market, a firm may have to forego profits in the short run. Many small firms are unable to absorb the start-up costs of exporting. This is one of the major reasons why only a small percentage of U.S. firms export: the Commerce Department has estimated that about half of U.S. exports of manufactured goods are made by only 100 companies and that 80 percent are made by only 250 companies. Large corporations dominate U.S. export trade.

Foreign government restrictions on trade—tariffs and non-tariff measures—are major barriers to expansion of U.S. exports. All countries, including the United States, have such restrictions. Another set of foreign government policies which affect U.S. exports is the formation of regional economic groupings or common markets. Of particular concern to the United States is the formation and expansion of the European Common Market. By lowering internal tariff barriers while retaining external tariffs, the Common Market has tended to displace U.S. exports. (Western Europe has been and continues to be a major market for U.S. exports.) In the interest of political and economic stability in Europe, the U.S. Government has consistently supported the concept of a common market in Europe, even though this development has probably contributed significantly to a loss of U.S. export markets.

Despite the geographical disincentives and the historical antiexport bias of U.S. producers, the United States has some notable competitive advantages on world markets. In particular, in two broad categories of goods—agricultural products and technology-intensive goods—U.S. exporters have gained dominant positions. In both categories U.S. exporters have made large positive contributions to the country's balance of trade. The success of U.S. exporters in these sectors is due to a number of factors, including the innovativeness of U.S. industry, the high level of productivity of U.S. workers (in both manufacturing industries and agriculture) and fertile farmland.

The volume of U.S. agricultural exports is highly variable, depending on crop conditions in other parts of the world. Although the growth rate has slowed in recent years, most forecasts suggest continued strong foreign demand for U.S. farm products in the future. However, a number of observers have expressed concern about the long-run competitiveness of some U.S. high-technology exports. Since the postwar reconstruction of West European and Japanese industries, those countries have gradually emerged as alternative sources of industrial innovation. Moreover, U.S. companies, through direct foreign investment, licensing agreements and other mechanisms, have begun to transfer their technologies abroad at a more rapid rate. Industries in other industrial countries and the advanced developing countries have succeeded in assimilating technologies developed in the United States and competing with U.S. exporters in third markets. While, in the past, this pattern was limited largely to industries with mature technologies, some observers maintain that U.S. high-technology industries are facing similar competitive pressures.[1]

United States producers in both the agricultural and manufacturing sectors should benefit in the near future from the substantial depreciation of the dollar against the currencies of some of the major U.S. trade partners during 1977–1978.[2] Dollar depreciation has the effect of reducing the foreign currency price of U.S. exports and raising the dollar price of U.S. imports, thus improving the price competitiveness of exporters or import competitors. Empirical studies suggest that any improvement in the price competitiveness of U.S. exports is likely to lag behind the depreciation by about 1½ years.[3] (Thus, the recent improvement in the U.S. trade balance may be due in part to the effects of the depreciation of the dollar.) However, such an improvement in the price competitiveness of U.S. exports is dependent on the domestic rate of inflation. A U.S. inflation rate in excess of those of its major trade partners would tend to offset the price advantage engendered by depreciation of the dollar.

III. U.S. GOVERNMENT INCENTIVES FOR EXPORTERS

The major U.S. Government programs designed specifically to promote exports are tax incentives, export credits and marketing information services. The principal tax incentive is the Domestic International Sales Corporation (DISC), which is designed to make exporting more profitable by in effect, lowering corporate income taxes. The Export-Import Bank and the Department of Agriculture's Commodity Credit Corporation promote exports through their export financing activities. The Departments of Commerce, State, and Agriculture provide a variety of informational and marketing services designed to accomplish other goals, may have the effect of stimulating exports. Finally, U.S. participation in the multilateral trade negotiations and the Government's exchange rate policy have major implications for U.S. exports.

Domestic International Sales Corporation (DISC)

The principal tax device designed to promote exports is the Domestic International Sales Corporation. Created by the Revenue Act of 1971 (P.L. 92–1978), DISC is a largely paper organization designed to purchase export goods from a domestic American parent corporation, and then to export them to a foreign purchaser. For example, a company might establish a wholly owned DISC. Goods designed for export would be sold by the company to its own DISC, and the DISC would in turn sell the goods to purchasers in a foreign country.

Prior to the Tax Reform Act of 1976, taxable income from the export sale was divided between the parent and the DISC in one of two ways. Depending on which was larger, 50 percent of the profits or 4 percent of the gross receipts was allocated to the DISC. In most instances, the 50 percent rule was followed. The 50 percent of taxable income attributed to the parent company was subjected to the statutory corporate tax rate of 48 percent. However, only half of the income attributed to the DISC was taxed at the statutory corporate rate. The rest would not be taxed until it was returned to the parent corporation. Because the tax need never be returned to the parent, the delay (deferral) in paying the tax was generally regarded as a permanent subsidy. In summary terms, a DISC resulted in reducing the tax rate applied to export income from 48 to 36 percent. In other words, only three quarters (¾) of export income earned by a DISC was subject to the normal corporate rate.

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[1] See, for example, Jack Baranson, "International Transfers of Industrial Technology by U.S. Firms and Their Implications for the U.S. Economy," prepared for the U.S. Department of Labor, Bureau of International Labor Affairs, December 1976. Also, George D. Holliday, "Trends in U.S. Technological Progress and International Trade Competitiveness," Congressional Research Service, August 27, 1976.

[2] See Arlene Wilson, "Depreciation of the U.S. Dollar," Congressional Research Service Issue Brief 78033.

[3] Anthony M. Solomon, Testimony, in U.S. Congress, House, Committee on Banking, Housing, and Urban Affairs, Subcommittee on International Finance, Export Policy, Hearing, 95th Congress, 2d session, Part I, February 6, 1978, p. 6.

The benefits of a DISC, however, are to be gradually reduced as a result of the Tax Reform Act of 1976. From the start, the DISC mechanism was criticized because it reduced taxes on both the income from new exports and the income from exports that would have been made in any case. The 1976 law attacks that problem by applying the DISC subsidy only to the portion of export income that exceeds a particular historical base.

The initial export base was to be the average gross receipts from exports for the four-year period 1972 through 1975. After 1979, the base period would move forward year by year. In other words, in 1979 the base period would be 1974 through 1977. To qualify for DISC benefits, export income must exceed 67 percent of the average base period income. The new provisions apply to export income for all tax years beginning after December 31, 1975.

The Tax Reform Act of 1976 contained a number of other features that further restricted the use of the DISCs. October 2, 1975, only after 50 percent of export income from military sales can qualify for DISC treatment. The ability of a parent corporation to make a tax free disposition of DISC securities has also been curtailed.

The DISC program has been used extensively by U.S. business. In DISC year 1976, there were 4,822 DISCs. DISC benefits accrued to over two-thirds of total U.S. exports during that year. DISC is the most costly of Government export incentives, resulting in revenue losses of over $1 billion in recent years. Estimated revenue losses for 1978–1980 are provided in Table 1.

TABLE 1.—*Estimated revenue loss from DISC, fiscal year 1978–1980*

Fiscal year:	*Revenue loss in millions*
1978	$1,135
1979	1,335
1980	1,525

Source: U.S. Senate. Committee on the Budget. Tax Expenditures: Relationships to Spending Programs and Background Material on Individual Provisions. 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978, p. 214.

Export-Import Bank

The Export-Import Bank of the United States (Eximbank) is the primary agency providing official credit assistance to U.S. exporters. The Export-Import Bank Act of 1945, as amended, directs the Bank to aid in financing and to facilitate U.S. exports and imports and stipulates that Eximbank financing must be competitive with financing offered by other governments.

In its efforts to carry out this function, Eximbank has developed a variety of services to U.S. exporters and financial institutions. The most important of these are direct loans, financial guarantees, exporter credit insurance and discount loans.

Direct loans are dollar credits extended by Eximbank directly to foreign borrowers for purchases of U.S. goods and services. The borrowers must use the loans to pay U.S. exporters and must repay them in dollars. The direct lending program is designed to supplement private sources of financing by providing credits in some cases when private lenders are unwilling to assume the risks or by extending credit on terms longer than private lenders can provide. Generally, Eximbank requires a downpayment from the buyer, provides part of the financing from its own funds, and requires private financing for the balance.

Financial guarantees are assurances to private financial institutions that finance U.S. exports that their loans will be repaid. The guarantees are backed by the full faith and credit of the United States. Such guarantees are designed to encourage private lenders to extend export credits and, in some cases, to lower interest cost to the borrower.

Credit insurance is provided to exporters of U.S. goods and services to protect them against the political and commercial risks inherent in foreign trade transactions. The insurance is provided by Eximbank in cooperation with the Foreign Credit Insurance Association, a group of approximately 50 U.S. insurance companies. The private insurers cover the normal commercial risks, such as insolvency of the foreign buyers, and Eximbank covers political risks, such as war or expropriation.

Discount loans are advance commitments to discount export debt obligations which U.S. commercial banks acquire. The Eximbank commitment assures the private lender that additional funds will be available should they be needed during the full maturity of the obligation. Thus, Eximbank provides an incentive to private banks to participate in the financing of U.S. exports.

In recent years, Eximbank has participated in an average of about 10 percent of all U.S. exports. It has concentrated its support on exports of manufactured goods (approximately 18 percent of all U.S. exports in this category) and capital goods (approximately 21 percent). Transportation and construction equipment and electric power plants (especially nuclear power plants) have accounted for a major portion of Eximbank financing. Agricultural exports have accounted for only a small percentage of Eximbank activities. Eximbank's management maintains that the Bank's concentration on large-scale, capital-intensive projects is justified because private banks are frequently unable to provide the large, long-term credits necessary to facilitate such sales. Generally, Eximbank benefits U.S. exporters by providing financing at better terms than private financial institutions. (For example, its credits are extended at lower interest rates and with longer repayment terms.)

In fiscal year 1977, over 140 countries participated in Eximbank programs. Among the major beneficiaries were developing countries, such as Algeria, Brazil, Taiwan, Mexico, Korea, and industrial countries, such as Canada, France, Japan, and the United Kingdom.

During fiscal year 1977, Eximbank authorizations (including loans, insurance, and guarantees) totaled $5.6 billion. Eximbank programs supported $8.5 billion in U.S. exports. The level of Eximbank activities in 1977 represented a decline from the previous few years, partially the result of more restrictive lending criteria. The peak year of Eximbank activity was in fiscal year 1974, when total authorizations of $9.1 billion supported $12.8 billion of U.S. exports. Estimated authorizations for 1978–1980 are summarized in Table 2.

TABLE 2: ESTIMATED CREDIT ACTIVITY FOR OFFICIAL EXPORT FINANCING PROGRAMS, FISCAL YEARS 1978-80

[In millions of dollars]

Program	Credit activity		
	1978	1979	1980
Export-Import Bank [1]	7,865	9,500	10,100
Short-term agricultural credits [2]	1,700	1,500	1,250
Food for Peace [3]	1,160	1,157	1,256

[1] Expected authorizations, all Eximbank estimates.
[2] Expected credits, Commodity Credit Corporation estimates.
[3] Food for Peace, titles I and II (loans and direct grants), excluding ocean transportation costs. Commodity Credit Corporation estimates.

Note: Credit activity reflects the sum of all loans obligated during a fiscal year under direct loan programs, or the value of all commercial loans or export shipments guaranteed or insured by Eximbank programs.

Source: U.S. Congress, Senate. Committee on the Budget. Tax Expenditures: Relationships to Spending Programs and Background Material on Individual Provisions. 95th Congress, 2d session. Washington, U.S. Government Printing Office, 1978, p. 214.

Commodity Credit Corporation Export Credit Sales

The Commodity Credit Corporation (CCC) Export Credit Sales Program, established in 1956 under the authority of the Commodity Credit Corporation Charter Act, is designed to help U.S. agricultural exporters expand sales in foreign markets. The CCC provides financing for exports of specified, privately owned agricultural commodities on a deferred payments basis, usually for periods of 6 months to 3 years. (A bill passed late in the 95th Congress authorizes the CCC to provide, under certain conditions, intermediate-term (3–10 year) credits for agricultural exports.)

CCC financing stimulates U.S. agricultural exports by making credits available at somewhat better terms than exporters could obtain elsewhere. Interest rates for CCC credits vary, but are usually slightly below equivalent market rates. Maturities for CCC credits are often longer than agricultural export credits offered by private banks.

Exports financed under the Export Credit Sales Program in fiscal year 1977 totaled $755.3 million. The peak year was fiscal year 1973, when $1,029 million of exports were financed. The budget for fiscal year 1978 was $1.7 billion (See table 2).

Public Law 480 (Food for Peace) exports

The Food for Peace Act (Public Law 83–480), originally enacted in 1954, is designed to promote U.S. agricultural exports and provide assistance to less developed countries. The concessional sales program under Title I of the Act provides long-term, low-interest rate loans to developing countries which meet certain poverty level criteria. (Interest rates have averaged 3 percent and repayment periods have been as long as 40 years.) Title II provides for grants through humanitarian relief activities.

Initially, agricultural products exported under this program were surplus products in Commodity Credit Corporation stocks. However, since 1966, the Government has purchased some of the products to be exported on the open market. The annual value of exports under the Public Law 480 program has varied from $0.9 billion in fiscal year 1974 to $1.6 billion in fiscal year 1965.[1] Estimates for fiscal years 1978–80 are provided in Table 2.

Export promotion programs

The Department of Commerce's export promotion programs are concentrated in the Industry and Trade Administration. The following are brief descriptions of the export services provided by the Industry and Trade Administration:[2]

EXPORT STIMULATION PROGRAMS

Media campaigns are conducted through the facilities of the Ad Council, utilizing the American business press representing some 2,300 publications, to promote the image of exporting as beneficial to participating firms as well as the Nation.

"E" and "E Star" awards are granted to firms that have achieved outstanding export success as a means of demonstrating to others, by example, the benefits of exporting.

Domestic publications describe services available in the Department and elsewhere to assist firms in exporting.

Multiplier activities enlist the support and cooperation of appropriate private sector groups and firms, such as banks, trade associations and so forth, in joint efforts to stimulate interest in exporting and to counsel new exporters.

EXPORT COUNSELING AND INFORMATION PROGRAMS

General business counseling services provide orientation-type information to companies interested in exporting and in need of advice on how to proceed.

Seminars on how and where to export are sponsored or cohosted with private market organizations to stimulate interest in and knowledge about exporting.

Country specialist counseling provides detailed advice and guidance on how best to develop and take advantage of commercial opportunities in individual countries.

International marketing information provides extensive and in-depth published information and reports on marketing techniques, prospects, practices and conditions in almost every country in the world.

Foreign market research provides detailed information on export potential for specific U.S. products in key foreign markets, much of it conducted on-the-spot by market research firms under contract.

CUSTOMER IDENTIFICATION AND CONTACT PROGRAMS

Export contact lists provide requesting U.S. firms and officials users with specialized lists of foreign buyers and representatives in select countries for select product categories.

The trade opportunities program provides subscribing U.S. firms with specific trade leads abroad through a computer-based notification system.

The major projects and overseas product sales activities apprise U.S. firms of specific "big ticket" opportunities abroad—namely large scale engineering, design, and construction projects, and major product and equipment sales opportunities—and directly assist them to compete successfully for contracts and orders.

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[1] For additional details on programs to promote U.S. agricultural exports, see, Congressional Research Service, "Potential for U.S. Agricultural Trade Expansion," in U.S. Congress, Senate, Committee on Agriculture, Nutrition, and Forestry, Subcommittee on Foreign Agricultural Policy, Export Promotion, Hearings, 95th Congress, 2d session, Washington, U.S. Govt. Print. Off., 1978, pp. 208–233.

[2] These program descriptions are provided in Department of Commerce, Industry and Trade Administration, "Export Promotion Strategy and Programs," reprinted in U.S. Congress, Senate, Committee on Banking, Housing, and Urban Affairs, Subcommittee on International Finance, Export Policy; hearing, 95th Congress, 2d session, Part 6, April 5, 1978, pp. 391–393.

The agent/distributor service provides requesting U.S. firms with the names of specific potential foreign representatives.

The new products information service publishes and disseminates abroad information on U.S. firms having newly developed or manufactured products available for export.

The exporter/agent information system (a proposed new program which is presently under study) identifies individual U.S. suppliers of specific products, and provides information about the firm and its product on microfilm cassettes for use at commercial libraries at Foreign Service Posts abroad.

The foreign buyers program encourages groups and individual foreign buyers to come to the U.S. to purchase goods and services, assists in making contracts between potential buyers and U.S. suppliers, and supports foreign buyer attendance at domestic trade shows.

OVERSEAS SALES PROMOTION PROGRAMS

Trade centers and international marketing centers provide U.S. firms with continuing opportunities to demonstrate their products in 14 major markets abroad to a select audience of targeted foreign buyers and representatives.

Trade and industrial exhibits provide U.S. firms with scheduled opportunities to demonstrate their products under Commerce-sponsorship in major or specialized international trade fairs or "solo" exhibitions abroad.

Catalog shows and video catalog exhibitions provide U.S. firms with scheduled opportunities and facilities to display their product, catalogs and sales literature and to depict the operations of their company and product in developed and emergent markets abroad.

The overseas information services provide visiting U.S. firms at U.S. Trade Centers, International Marketing Centers, Embassies and Consulates abroad, with on-the-spot counseling and assistance in contracting foreign buyers and representatives.

In-store promotions provide U.S. suppliers of consumer goods with scheduled opportunities to expose their products to the overseas public through Commerce-sponsored events held in select foreign retail stores.

Specialized and industry organized-government approved (IOGA) trade missions provide groups of U.S. firms with scheduled opportunities to travel abroad under Commerce sponsorship to meet directly with potential foreign buyers and representatives.

Technical trade missions provide foreign buyers and representatives with scheduled opportunities to learn about the latest product/industrial technologies in the U.S. available from U.S. suppliers.

In carrying out these programs, the Industry and Trade Administration is assisted by Foreign Service economic and commercial officers under the jurisdiction of the Department of State. Foreign Service officers assigned to U.S. embassies and consulates abroad report on economic developments and market conditions in their countries of assignment. This information is reported to the Commerce Department, which disseminates it to the U.S. business community. Foreign Service officers abroad also directly assist U.S. businessmen in contracting potential buyers of their products. The combined State and Commerce Department budget for export promotion has totaled over $50 million in recent years.

The Department of Agriculture's Foreign Agricultural Service (FAS) is responsible for promotion of agricultural exports. FAS provides the following kinds of services for U.S. agricultural exporters.[1]

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[1] Program descriptions are provided in U.S. Congress. House. Committee on Appropriations. Subcommittee on Agriculture and Related Agencies. Agriculture and Related Agencies Appropriations for 1978; hearings, 95th Congress, 1st session, Washington, U.S. Govt. Print. Off., 1977, 170.

> It maintains a worldwide agricultural intelligence and reporting service to provide U.S. farmers and traders with information on world agricultural production and trade that they can use to adjust to changes in world demand for U.S. agricultural products. This is done through a continuous program of reporting by agricultural attaches and officers located in 67 posts throughout the world covering some 108 countries. Reporting includes information and/or data on foreign government policies, analyses of supply and demand conditions, commercial trade relationships and market opportunities.
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> The Foreign Agricultural Service analyzes agricultural information essential to the assessment of foreign supply and demand conditions in order to provide estimates of the current situation and to forecast the export potential for specific U.S. agricultural commodities. Published economic data about commodities are combined with attache reports and subjected to analysis through advanced econometric techniques to generate these estimates.
>
> In addition, the Service is currently responsible for determining the utility and cost effectiveness of using satellite, meteorological and climatological data to predict global production of major crops. These operations, being conducted by the LACIE program, will yield estimates of wheat production for the U.S., Canada and other regions outside North America which will be used to evaluate the experiment. The program has already begun to design and test an advanced prototype for an operational crop forecast system within USDA. The program is conducted in cooperation with the National Aeronautics and Space Administration (NASA) and the National Oceanographic and Atmospheric Administration (NOAA).
>
> The Service develops foreign markets for U.S. farm products through effective market promotion activities. It provides tradesmen, both foreign and domestic, with services that are necessary to build and maintain markets for U.S. products overseas.
>
> Under authority of the Trade Act of 1974, the Service directs and coordinates Department participation in the formulation of trade programs and agreements in order to stabilize and expand the world trade of U.S. agricultural products. It effectively negotiates to reduce restrictive tariff and trade practices which are recognized as barrier to the import of U.S. agricultural commodities.

The fiscal year 1978 budget for FAS was $43 million, about $2 million higher than the previous year.

Trade negotiations

The trade barriers imposed by foreign governments also serve as disincentives to U.S. exporters. A key goal of U.S. foreign trade policy in the postwar period has been the elimination or reduction of many of the barriers which restrict world trade through bilateral and multilateral trade negotiations. In 1973, the United States and over 100 other countries signed the Tokyo Declaration which initiated the seventh round of trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The Tokyo Round of the multilateral trade negotiations is expected to be completed in late 1978 or early 1979.

Negotiators at the previous six rounds of trade negotiations concentrated on reduction of tariffs and elimination of quantitative restrictions on trade in manufactured products. Most economists believe that the success of these negotiations has contributed significantly to the rapid expansion of world trade. United States exporters, like those in other countries, have been primary beneficiaries. However, the previous rounds of negotiations made relatively little progress in liberalizing trade in agricultural goods and eliminating many of the nontariff measures (NTMs) which distort international trade. (NTMs include measures, other than tariffs, which restrict imports as well as measures which artificially increase the level of trade. Among the former are import quotas, restrictive product standards, and government procurement procedures. The latter include government export subsidies.) All countries, including the United States, have made extensive use of NTMs. If successful, the conclusion of the present round of trade negotiations could provide a major stimulus to U.S. exporters.

Exchange rate policy

Since 1973, the U.S. Government has supported the more flexible exchange rate system of "managed floating". Generally, the Government has allowed the exchange rate of the dollar to be determined by the interaction of supply and demand forces. Thus, until November 1978, the Carter Administration's stated policy was to intervene only to counter disorderly markets (i.e., the U.S. Government would buy dollars on international monetary exchanges when dollar depreciation was considered to be caused by speculative or psychological forces, and not by underlying economic conditions). Despite criticism by a number of foreign government officials, the Administration allowed the dollar to depreciate substantially against some major foreign currencies.

This policy changed somewhat in November 1978. After the dollar had again begun to depreciate rapidly, the Government intervened more actively to support it. The discount rate was raised, and reserve requirements on large time deposits were increased. The resulting higher interest rates were expected to attract capital inflows, thus relieving pressure on the dollar. The Administration also announced that it would increase its gold sales and would intervene more forcibly in foreign exchange markets by exchanging more of its foreign exchange reserves for dollars.

The Government's exchange rate policy should be seen as an integral part of its export efforts. The general policy of allowing the dollar to depreciate may result in an improvement of the price competitiveness of U.S. goods and thus an expansion of exports. (There is evidence that this improvement is already taking place.) However, the degree to which this happens will depend on a number of factors, including the rate of domestic inflation relative to the rates of other countries, the degree to which foreign buyers respond to price changes and expand their purchases of U.S. exports, and the extent to foreign barriers to U.S. exports.

Other Government programs and policies

The following are brief summaries of other Government programs and policies which may have (or may have had in the past) the effect of stimulating U.S. exports.

Taxation of U.S. citizens abroad.—Part of the foreign earned income of U.S. citizens residing abroad may be excluded from income for tax purposes. Some observers maintain that the stationing of employees abroad by U.S. businesses is important to their export activities. The tax exclusion, it is suggested, allows more Americans to live abroad and thus stimulates U.S. exports.[1]

Western Hemisphere Trade Corporation.—For some years, the Western Hemisphere Trade Corporation (WHTC) has constituted a limited subsidy to U.S. exports to the Western Hemisphere. To qualify as a WHTC, a firm must do all of its business outside the United States but within the Western Hemisphere. In addition, 90 percent of the WHTC's income must be from the active conduct of a trade or business (as opposed to receiving dividend payments) and at least 95 percent of the preceding three years' (or the life of the corporation if shorter) income must be from outside the United States.

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[1] U.S. Department of Treasury. Office of Tax Analysis. The American Presence Abroad and U.S. Exports, by John Mutti. OTA Paper 33, October 1978.

For firms that qualify as a WHTC, there is a substantial reduction in taxes. The overall effect of a WHTC is to reduce the corporate income tax rate from 48 to 34 percent—a drop of 14 full percentage points. Despite the evident advantages, the WHTC mechanism has been little used. In 1972, the taxes foregone to permit the WHTC deduction amounted to some 40 million dollars.

However, the future of the WHTC is extremely limited. The Tax Reform Act of 1976 provided for a four-year phaseout of the WHTC benefit. For tax years following 1979, the WHTC will be repealed.

China Trade Act Corporation.—Until 1978, a China Trade Act Corporation (CTAC) could obtain a special deduction that could completely eliminate any U.S. income tax liability. To qualify as a CTAC there were both a source-of-income test and an ownership test. For a CTAC, income must have come from sources within Taiwan and Hong Kong (the original purpose of the 1922 law was to promote business in China, but after the Communist takeover CTACs were restricted to Taiwan and Hong Kong). The deduction was further limited by the proportion of par value stock that was owned by U.S. citizens or residents of Hong Kong, Taiwan or the United States. If 100 percent of the stock met the ownership test, all U.S. corporate tax liability would be eliminated.

In addition, dividends paid to shareholders who were residents of Hong Kong or Taiwan were not subject to U.S. tax. In other words, a group of American citizens that owned a CTAC and lived in Hong Kong or Taiwan would not have to pay any U.S. corporate or individual income taxes on CTAC income.

Much like WHTC, the CTAC appealed to both raw material producers and wholesalers. Because of the radical changes that took place on mainland China, the CTAC provision was little used. Since enactment of the provision in 1922, nearly 300 firms had been incorporated under the Act. By 1968, however, the majority of these firms were no longer in existence, and only four were actively conducting a business in Hong Kong or Taiwan. Under the Tax Reform Act of 1976, deductions under the CTA were phased down and then eliminated for taxable years beginning after December 31, 1977.

Commodity Credit Corporation export subsidies and Public Law 480 barter programs.[1]—Two Commodity Credit Corporation programs, the export subsidies and barter programs, were formerly used to stimulate agricultural exports, but are now inactive. Under the export subsidies program, the CCC provided direct subsidy payments to exports of specified farm commodities. The subsidies were intended to compensate exporters for the differential between the world market price and the higher U.S. price, making it economically feasible to export U.S. products. From 1964 to 1973, almost 30 percent of U.S. agricultural exports received such subsidies. The payments were suspended because they were considered no longer necessary to promote exports.

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[1] Congressional Research Service, "Potential for U.S. Agricultural Trade Expansion," op. cit., p. 228.

Under the barter program, between 1964 and 1974, the CCC exchanged surplus agricultural commodities in its stocks for foreign strategic materials or goods and services needed by U.S. Government agencies (primarily the Defense Department and the Agency for International Development). The bartered commodities, which accounted for 5 percent of total U.S. agricultural exports in 1964–1974, were intended for foreign customers who did not have sufficient currency to pay for them but had materials needed for U.S. strategic stockpile.

Deferral of income of controlled foreign corporations.—The foreign subsidiary of a U.S. corporation is not taxed on the subsidiary's income until the income is remitted or repatriated to the U.S. parent company. The deferral of U.S. tax liability continues as long as the income is reinvested in the subsidiary or other foreign subsidiaries. A tax credit is allowed for the amount of foreign taxes paid on repatriated income. To some extent, the special treatment of foreign subsidiary income may stimulate U.S. exports. For example, the establishment or expansion of a foreign subsidiary may require exports of capital goods or other inputs from the parent company to the subsidiary.

Overseas Private Investment Corporation.—The Overseas Private Investment Corporation (OPIC) is a U.S. Government agency chartered to encourage U.S. private investments which support economic development in developing countries. It provides a number of services and incentives to U.S. companies investing abroad, including insurance of private investments against political risks. Like tax deferral, OPIC's encouragement of U.S. foreign investment may stimulate, to some extent, exports to foreign subsidiaries.

Foreign military sales program.—The U.S. Government provides credits and loan guarantees through the Department of Defense to friendly countries for the purchase of U.S. military goods and services. While this program is used primarily as a tool of U.S. foreign policy, it provides significant support for defense-related exports.

Foreign trade zones.—A Foreign Trade Zone (or free-trade zone) is a warehouse or manufacturing area approved by the Department of Commerce's Foreign Trade Zones Board to receive imported goods without formal Customs entry and without payment of duties. The use of a zone benefits a U.S. exporter primarily because duties are not applied on imported materials or components used in manufacture or assembly in the zone if the finished product is exported.

Duty drawbacks.—A U.S. exporter is entitled to a duty drawback or refund of previously deposited customs duties assessed on imported products that are incorporated within an exported finished product.

Exemption from Federal excess taxes.—Sales for export are exempt from Federal retailer's excise taxes.

Webb-Pomerene associations.—The Webb-Pomerene Act exempts export trade associations from the ban on certain activities which would otherwise violate antitrust laws. It provides a legal basis for U.S. companies to pool their efforts to expand exports. However, it has had little effect on U.S. exports.

Foreign aid.—U.S. bilateral assistance programs increase the foreign demand for U.S. exports by the use of so-called "tied aid", which restricts the use of aid funds to the purchase of U.S. products. In addition, they sometimes create a demand for U.S. products which remains after foreign aid is discontinued. One study of the impact of U.S. bilateral aid programs on U.S. exports estimated that each dollar of AID development assistance results in a 50- to 90-cent increase in U.S. exports.[1]

State export promotion activities.—Many States provide financial and non-financial export incentives to attract industry. Several of them exempt from State taxation all receipts from sales outside the State, regardless of whether sales occur at home or abroad. Included among other financial incentives are various exemptions from State and local taxes for specified time periods.

In addition to financial incentives, most States conduct seminars, workshops and export education programs to familiarize mainly small and medium sized businesses with the procedures (documentation, licensing, etc.) and advantages of exporting. In this regard, each year the Federal Government grants $50,000 to each State to assist in expanding export development programs.

IV. GOVERNMENT-IMPOSED DISINCENTIVES FOR EXPORTERS

U.S. exporters frequently complain that various Government laws, regulations and policies have the effect of restricting exports. Some of their complaints relate to programs designed specifically to influence foreign trade; others relate to Government measures which generally increase production costs for business and thus adversely affect the competitiveness of U.S. exports on foreign markets. The following is a list of the major regulatory programs and policies that are asserted (especially by U.S. exporters) to have a negative effect on U.S. exports. The list is intended only to reflect the views of those observers who see elements of an anti-export bias in Government policies. Generally, the impact of these Government measures cannot be determined with precision.

Export controls

In the post-World War II period, U.S. export control legislation has contained three rationales for imposing Government restrictions on U.S. exports: (1) to preserve national security; (2) to prevent shortages and export demand-induced inflation in the domestic economy; and (3) to promote U.S. foreign policy. Export controls have been used most frequently for national security purposes, primarily to restrict U.S. exports to the Soviet Union and other communist countries. Under the Export Administration Act of 1969 (EAA), the Department of Commerce controls exports of goods or technologies that would make a significant contribution to the military power of a potential adversary and would also be detrimental to U.S. national security. Most frequently, denials of export licenses on national security grounds have been issued on applications to sell high-technology products to communist countries.

Even when licenses are ultimately approved, the national security export control program often involves delay in acting on applications. Although the vast majority of applications are handled routinely and quickly, some applications involving major export sales take longer because of extensive interagency review. Businessmen often complain that such delays can result in the loss of contracts.

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[1] Congressional Research Service. The Impact of the United States Bilateral Aid Program on U.S. Exports and Other Economic Variables, by Raymond Ahearn and Warren E. Farb, Multilith 77-53, March 2, 1977.

Foreign policy export controls are also administered by the Commerce Department after interagency discussions, primarily with the State Department. Prominent examples of foreign policy controls are the following: general embargoes on trade with Cambodia, Cuba, North Korea and Vietnam; the economic boycott of Rhodesia, declared in compliance with a United Nations Resolution; human rights restrictions, such as prohibitions on exports of military or police equipment to South Africa; ad-hoc restrictions, such as denial of a license to export certain goods to Libya because of its alleged support for international terrorism; and the routine referral to the National Securuity Council of applications to export oil and gas equipment to the Soviet Union.

The EAA also authorizes the Department of Commerce to restrict exports in order to protect the domestic economy from excessive drain of scarce materials and to reduce the inflationary impact of foreign purchases. Short supply controls are currently imposed on exports of petroleum and petroleum products and were in the past imposed on other materials, such as ferrous scrap, soybeans and an array of other agricultural products.

Restrictions on U.S. trade with communist countries

In addition to export controls, there are special restrictions on trade with communist countries which have indirectly limited the volume of U.S. exports to those markets. The most important of these are restrictions on the extension of most-favored-nation tariff treatment and U.S. Government export credits to those countries. An amendment to the Trade Act of 1974 conditions the the extension of MFN treatment and Government credits to communist countries on compliance with certain freedom-of-emigration provisions. The Export-Import Bank Amendments of 1974 places a $300 million ceiling on Eximbank credits to the Soviet Union and a $40 million subceiling on credits for exports of energy-related goods or services to the Soviet Union.

Regulation of the sale of military equipment

There are various limitations on the export of military equipment. The Arms Export Control Act requires that direct military sales be licensed by the Department of State's Office of Munitions Control. The Renegotiation Board recently amended its regulations to subject foreign military sales contracts to renegotiation (i.e., recapture of "excessive" profits made by a U.S. manufacturer on arms export sales). Contracts for sales brokered by the Department of Defense under the Arms Export Control Act are subject to most of the Armed Services procurement regulations. Finally, on May 19, 1977, the President announced a policy of conventional arms transfer restraints, implemented by various controls on military hardware exports. Among the controls is a prohibition on the United States, being the first supplier to introduce into a region new weapons systems which would create a new or higher combat capability.

Antitrust laws

Under U.S. antitrust law, actions occurring in foreign countries which have substantial and foreseeable effects on domestic commerce are subject to U.S. antitrust jurisdiction. Many businessmen complain that the antitrust laws inhibit their overseas activities. The major problem is apparently the uncertainty of application of antitrust laws. Businessmen, reluctant to risk antitrust violations, may sometimes limit their involvement in international business activities, thus losing possible export opportunities.

Businessmen maintain that a major area of uncertainty is the establishment by U.S. firms of consortia to bid on foreign projects. The Webb-Pomerene Act provides an antitrust exemption for domestic firms combined in an association for the export of "goods, wares, and merchandise" under certain specified conditions. However, the law does not include a similar exemption for the export of services—a potential area of significant export growth.

National Environmental Policy Act (NEPA) environmental impact statements

U.S. exporters have faced uncertainty over whether the National Environmental Policy Act (NEPA) requires environmental impact statements for U.S. export licenses, Eximbank financing, Overseas Private Investment Corporation insurance and other Government foreign trade programs. (The Agency for International Development has already begun to take into consideration the environmental impact of U.S. foreign assistance projects.) There has been concern in the business community that environmental constraints may have a negative effect on exports by introducing delay and uncertainty into international commercial transactions.

Nuclear export restrictions

The Nuclear Non-Proliferation Act and other Government policies have a number of restrictions affecting U.S. nuclear and nuclear-related exports. Industry spokesmen claim that these policies, combined with complex procedural requirements for exporting nuclear materials and equipment have made the United States less competitive in international markets.

Anti-boycott statutes and regulations

Anti-boycott amendments to the Export Administration Act and the Internal Revenue Code contain overlapping and allegedly inconsistent prohibitions, exceptions, reporting requirements and sanctions. Antitrust law imposes still a third set of legal constraints. Businessmen maintain that the complexity of the regulations creates confusion and unceraintv which complicate the international activities of exporters and inhibit potential exporters from entering the export field.

Foreign Corrupt Practices Act

Some businessmen assert that uncertainty about the meaning of certain provisions of the Foreign Corrupt Practices Act and about Department of Justice and Securities and Exchange Commission enforcement policies will inhibit many international business transactions. They assert that these uncertainties create large risks which may force them to forego certain business opportunities.

Human rights restrictions

A number of laws have been passed in recent years which restrict U.S. economic and military assistance to countries which have poor records in the observance of basic human rights. To the extent that foreign aid and military assistance generate additional exports (see above), the human rights provisions may limit U.S. exports. When making decisions on loans, guarantees or insurance, the Overseas Private Investment Corporation and the Export-Import Bank are also required by law to consider the human rights records of recipient countries. Eximbank has denied loans to some countries with poor human rights records. Exports of crime control equipment to most destinations require validated licenses from the Commerce Department.

Health and safety export restrictions

Federal regulations restrict the export of some consumer goods that have been banned for domestic use for health or safety reasons. An example is the Consumer Product Safety Commission's (CPSC) 1978 action prohibiting the export of TRIS-treated garments. Amendments to the Consumer Product Safety Act passed by the 95th Congress require anyone intending to export a product which does not comply with a U.S. product safety rule to file a statement with the CPSC at least 30 days prior to the export. CPSC is required to notify the appropriate public health officer in the importing country.

Cargo preference laws

Cargo preference laws, such as the Cargo Preference Act and Public Resolution 17, require the use of U.S.-flag vessels for transportation of U.S. Government-financed commodities (including P.L. 480 agricultural commodities and Eximbank-financed exports). Such laws may result in higher exporter costs—and hence lower competitiveness—since foreign-flag vessel freight rates are typically less than those of U.S.-flag vessels.

Laws, regulations, and policies with indirect effects on the cost competitiveness of U.S. exports

There are many Federal laws and regulations which do not directly affect exports, but which mandate substantial capital and other expenses by U.S. companies. When passed on through price increases, the result may be diminished competitiveness of U.S. exports. Prominent examples include: the Clean Air Act; the Federal Water Pollution Control Act; the Occupational Safety and Health Act; the Toxic Substance Act; the Consumer Product Safety Act; minimum wage laws; and the Employment Retirement Income Security Act (ERISA).

V. CARTER ADMINISTRATION'S PROGRAM ON EXPORT PROMOTION—BRIEF DESCRIPTION AND EVALUATION

On September 26, 1978, President Carter announced a comprehensive program to stimulate U.S. exports.[1] The Administration's program focused on three areas of export policy:

(1) increased direct assistance to U.S. exporters;
(2) reduction of domestic U.S. barriers to exports; and
(3) reduction of foreign barriers to U.S. exports.

Elements of the first two areas are discussed in this section. The third measure—U.S. participation in trade negotiations—is not a new proposal, but a continuation of past policy (see above, p. 253). No further discussion of the trade negotiations is included here. However, it is important to note that a successful conclusion of the current round of Multilateral Trade Negotiations could provide a major stimulus to U.S. exports. Similarly, the Carter Administration's policy of allowing the dollar to depreciate in 1977–1978 (which was not announced as part of the export program) could have an important stimulative effect on U.S. exports. Taken together, these two policies could be much more significant, from the standpoint of export expansion, than any of the other programs announced by President Carter.

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[1] President Carter's statement is reprinted in U.S. Congress, Senate, Committee on Commerce, Science and Transportation, National Export Program, Hearing, 95th Congress, 2d session, September 26, 1978, Washington, U.S. Govt. Print. Off., 1978, pp. 73–76.

Direct assistance to U.S. exporters

The President's proposals to increase direct assistance to exporters places major emphasis on increased export credit assistance—both Eximbank and CCC short-term agricultural credits. Eximbank direct loans are to be increased from $700 million in FY 1977 to $3.6 billion in FY 1979. Short-term agricultural credits are to be increased from $755 million in FY 1977 to $1.7 billion in FY 1978. (Authorizations for both of these increases had been requested before the President announced his export program.) In both cases, FY 1977 credit activity had been at low levels (compared to the early 1970s) for a number of reasons, including more restrictive lending criteria and reduced demand for U.S. agricultural products. The expansion for FY 1978–1979 mark a resumption of the upward trend for official credit assistance of the early 1970s.

Proponents of more Government assistance to U.S. exporters often identify official export credits as one of the most valuable Government programs. Official credits, it is maintained, are necessary to compensate for gaps in the private financial market. For example, it is claimed that many long-term, risky export transactions would not be financed by private institutions. Moreover, proponents maintain that U.S. export credit programs must be improved to meet the competition from aggressive official lending programs in other countries. According to advocates of this point of view, official export credits make possible many U.S. exports which could not take place without them.

Opponents of official export credit programs often maintain that such assistance provides an implicit subsidy to the export sector which is not needed and which has the effect of distorting private investment decisions. In particular, they argue that under the current exchange rate system, any expansion of exports resulting from official credit assistance will be offset by shifts in exchange rates. For example, an increase in U.S. exports tends to drive up the value of the dollar, making U.S. exports more expensive and imports less expensive. Thus, appreciation of the dollar tends to counteract the effort to expand exports. (It should be noted that this is an argument against all Government efforts to stimulate exports under a flexible exchange rate system.)

Various efforts to measure the "additionality" of Eximbank programs (i.e., the amount of additional exports generated by the programs) have come to radically different conclusions. A Treasury Department study estimated that all Eximbank programs generated about $4 billion in U.S. export sales in fiscal year 1976, $3.4 billion of which was attributed to Eximbank's direct loan program.[1] However, a study by the Congressional Research Service, using a different methodology, estimated that additional exports of only $670 million were generated by Eximbank's 1976 direct lending.[2] The Carter Administration's decision to expand considerably official export credit assistance suggests that it accepted the more optimistic appraisals of the effectiveness of such programs. However, the Administration's program also includes a pledge to negotiate with major U.S. trade partners for stricter limits on official export credit assistance. The latter measure suggests a desire to limit the use of official export credits in the future.

Estimates of the benefits from tax incentives to U.S. exporters also vary. The 1976 Treasury Department DISC report estimated the net increase in exports attributable to DISC in 1974 at $4.9 billion,[3] while a Congressional Research Service study of that year estimated a maximum net increase of only $1.4 billion.[4] The most recent Treasury Department report estimates that DISC may have increased U.S. exports in 1976 by about $2.9 billion, and suggests that its estimate may overstate the effect of DISC.[5] In contrast, a report commissioned by the Special Committee for U.S. Exports, an association of U.S. exporters, estimated that DISC generated $6.3 billion of additional exports in 1974.[6] In the case of DISC, the Administration's export program appears to be based on the less optimistic appraisals. In his statement of September 26, 1978, President Carter maintained that DISC was an inefficient use of the taxpayers' money and recommended that it be either phased out or revised to a simpler, less costly form.

The President recommended retention of another tax incentive—tax relief for Americans employed abroad. Under his proposal, the total tax relief to U.S. citizens abroad would be approximately $250 million. Both of the tax measures in the President's program had been proposed before the export program was announced.

The President also announced a significant expansion of the export promotion programs of the Commerce, State, and Agriculture Departments. The Commerce and State budgets are to be increased by a total of $20 million, and certain agricultural export development programs are to be expanded. The proposed increases in the Commerce and State budgets focus squarely on what has been a major criticism of the program—that it helps large and experienced firms much more than small or medium-sized firms with little experience in exporting. The President emphasized that smaller firms were to be given high priority in spending the additional funds. Specifically, the President proposed three areas of assistance to exporters:

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[1] U.S. Department of Treasury, "Additionality" in the Activities of the Export-Import Bank of the United States, by Dean A. DeRosa and William W. Nye, in U.S. Congress, House, Committee on Banking, Finance, and Urban Affairs, Subcommittee on International Trade, Investment and Monetary Policy, To Amend and Extend the Export-Import Bank Act of 1945, Hearings, 95th Congress, 2d session, March 13, 15, 16, and 17, 1978, Washington, U.S. Govt. Print. Off., 1978, pp. 54–71.

[2] Gravelle, Jane, Impact of Eximbank on U.S. Exports, Congressional Research Service typed report, April 25, 1978.

[3] U.S. Department of the Treasury, The Operation and Effect of the Domestic International Sales Corporation Legislation: 1976 Annual Report, April 1978.

[4] Congressional Research Service, The Domestic International Sales Corporation and Its Effects on U.S. Foreign Trade and Unemployment, by Jane Gravelle, Kent Hughes and Warren E. Farb, Multilith 76–92 E, May 4, 1976.

[5] DISC 1976 Annual Report, op. cit., p. 10.

[6] Norman B. True, Inc., The Economic Effects of DISC, a study commissioned by the Special Committee for U.S. Exports, September 17, 1975.

> A computerized information system to provide exporters with prompt access to international marketing opportunities abroad and to expose American products to foreign buyers;
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> Risk sharing programs to help associations and small companies meet initial export marketing costs; and
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> Targeted assistance to firms and industries with high export potential and intensified short-term export campaigns in promising markets.

In addition, the President announced that the Small Business Administration would channel up to $100 million of its current authorization for loan guarantees to small business exporters. The money would be used to assist small businesses in expanding production capacity and meeting cash flow problems involving overseas sales or initial marketing expenses.

The Government's export promotion program has long been criticized for its lack of attention to the needs of small, inexperienced businesses. Many critics maintain that the Government's programs are needed only by small businesses. Large exporters, they maintain, have sufficient resources to penetrate foreign markets and expand export sales without Government assistance. Yet, it alleged, the latter have been the primary beneficiaries of Government assistance. However, there is not unanimity among businessmen on this point. Some observers suggest that attempts to generate a major expansion of exports from small and medium-sized firms are futile. It is sometimes suggested that most of these firms are not suited for exporting directly, and that their role in international trade will continue to be confined primarily to subcontracting for the large corporations which have traditionally dominated U.S. exports.

Reduction of domestic barriers to exports

Despite many complaints from businessmen about Government-imposed barriers to exports, it is unclear to what degree various Government programs have inhibited exports. There is no way to measure in precise quantitative terms either the reduction in exports which results from Federal regulations and policies or the improvement which might result from removing various barriers. Nevertheless, the Carter Administration's export expansion program is apparently based on the assumption that some improvement in U.S. export performance can result from an increased awareness on the part of Government administrators of the importance of exports. The President emphasized the need to administer Federal laws and policies "with greater sensitivity to the importance of exports." He announced that he was directing the head of all departments and agencies to take into account the possible adverse effects on exports of their administrative and regulatory activities.

The President also announced three specific approaches to solving the problem of Government-imposed disincentives to exporters:

> He directed the Departments of Commerce, State, Defense and Agriculture to take export consequences fully into account when considering the use of export controls for foreign policy purposes;

He directed the Justice Department to give guidance to businessmen who were uncertain about the application of the Foreign Corrupt Practices Act or the antitrust laws; and

He issued new guidelines on the applicability of the National Environmental Policy Act, which would require abbreviated environmental reviews only for exports of nuclear reactors, financing of exports which might create serious public health risks, and certain Federal actions which might have a significant adverse effect on the environment of foreign countries or on national resources of global importance.

The initial reaction to the Administration's program suggests that it will not please many observers. Some businessmen in the export community, while applauding the program as a first step, have noted that it does not address some important criticisms of U.S. Government policy. For example, frequent complaints about the allegedly poor management of the Commerce and State Department export promotion programs are not explicitly taken into account. Likewise, many of the Government programs identified by businessmen as barriers to exports are not addressed. Some observers suggest that much depends on how the program, particularly the President's directives on barriers to exports, will be administered.

The Administration's export promotion program also faces criticism from other perspectives. The Government programs identified as barriers to exports are generally being carried out to pursue alternative social and economic goals. The success of the President's proposals will depend largely on how much weight export expansion is given vis-a-vis these alternative goals. Advocates of these Government programs will probably resist sacrificing them to the goal of increased exports. Many people believe that the alternative goals are more important than export expansion.

Moreover, some observers believe that there is no need for new Government incentives for exporters. They point to the recent improvement in the U.S. balance of trade as evidence that exchange rate fluctuations and expansion of the economies of major U.S. trade partners will provide sufficient U.S. export expansion.

Looking Beyond the Rush to China*

(By Juanita M. Kreps, Secretary of Commerce)

The rush to China is on. It is reminiscent of the drive to trade with the Soviet Union when détente unfolded in 1972. U.S. businessmen are eager to supply nations throughout the world with the capital and technology that they seek to help them become modern industrial states.

The new export opportunities are welcome. But they foreshadow a significant expansion in worldwide industrial capacity that will eventually affect world trade in fundamental ways and severely test both our commitments to free trade and our ability to compete. The emergence of new centers of industrial capacity abroad is a challenge that to date we have largely ignored.

The dilemma was captured by a question often raised during my recent trip to India: Why does the United States continue to produce goods which can be made more cheaply in other countries?

An answer based on the need for jobs in a nation with six million unemployed is unpersuasive to a nation that suffers a hundred million idle—a total that is roughly the size of our entire labor force.

It is not surprising that pressures for protectionism are strong today. They will mount as worldwide industrial capacity expands. With the help of Western capital and technology, China in time will be selling machinery, steel, chemicals and similar goods to the rest of the world, including the United States. Countries such as India, with far fewer resources, will intensify their demands for access to Western markets for products such as textiles, with which the world is already oversupplied. The Soviet Union has ambitious plans for major new factories, built with Western equipment and technology to produce truck tires, automobile engines, television tubes, even blue jeans. The image of a generation of card-carrying comrades clad in American-style blue jeans gives as much pause, perhaps, as the one now being offered for refreshment in Peking.

As China, India, the Soviet Union and others build their industrial bases, they will make for themselves things they now buy from us, they will intensify their demands to sell in the United States; and they will compete with us in Third World markets.

In response, we can retreat into fortressed America, erecting walls around domestic industries threatened by competition from "cheap" foreign labor and restricting the transfer of capital and technology abroad.

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*Reprinted by permission of the Washington Post, Jan. 17, 1979: A13.

But to do so would be inefficient, because it would lock us into wasteful patterns of production and would violate the basic principle of competition, which helped build the richest country on earth.

It would be self-destructive, because it would trigger a chain of similar defensive measures around the world.

And it would be irresponsible, because it would condemn the world to missed opportunities as the engine of change embodied in U.S. economic power withers from lack of competition.

Alternatively, we can view what is happening as an opportunity, not a threat—an opportunity to apply our resources to the things we do best and most efficiently. Increasingly, much of our advantage will lie in the high technology and service industries. Increasingly, too, the change will involve a shrinking of old industries with all the pain that such decline entails. But if we believe that worldwide economic growth promises a better life for all mankind, we have a profound responsibility to help rather than hinder that promise.

Mere recognition of the gains from trade and a willingness to let it occur are not enough. Our survival as a world leader and our commitment to expanded trade cannot be taken for granted in a world reshaped by powerful new participants in international trade, many of which have highly centralized economies and are capable of bending economic decisions to political objectives.

To survive and advance, economic policy-makers must look further ahead than is our custom. We need a clearer notion of probable shifts in the composition of world output and a realistic assessment of our future competitive strengths. We need to sustain an economic environment in which industries that offer the best promise for the United States in the years ahead can emerge and prosper. High employment, rationality in regulation and a tax system that encourages private initiative should all be part of this environment. At the very least, government should take care not to impede industrial development.

In short, we need an industrial policy that permits us to take advantage of the trade opportunities that lie ahead. We now lack a clear sense of direction, perhaps because we continue to think of our markets as domestic rather than worldwide.

Although these are not new issues, China dramatizes their importance. If industrial development around the world is to be a positive force and if we are to compete effectively with powerful new economies now bursting on the world scene, we shall have to do more to emphasize our industrial strength by providing the climate necessary to permit its full expression.

In recent discussions with Soviet leaders, I stressed the fact that trade itself is not our common goal. The goal is the well-being of all people, and reaching that goal is a common responsibility.

All of us will have to adjust. Countries that seek our markets will have to open theirs. We, in turn, must accept rapid economic evolution as our charter and deal with it with foresight. To do otherwise would impair mankind's chances for a better life. History will judge harshly a generation that fails to meet that challenge.

Perhaps cola in China, vodka on U.S. tables and blue jeans on Soviet youths will help ease the way.

GEORGE MEANY ON 'THE FACTS OF TRADE'*

Secretary of Commerce Juanita Kreps' article, "Looking Beyond the Rush to China" [op-ed, Jan. 17], doesn't look ahead far enough to live up to its title. Moreover, her view that U.S. trade and industrial policies "lack a clear sense of direction" was never better illustrated than by the opinions she expressed.

Her point, badly put, is that the United States ought to abandon its basic industrial capacity and import the goods it needs from countries that can produce them "more efficiently," while concentrating on the "high technology and service industries" where our comparative advantage lies.

Mrs. Kreps is, therefore, content to accept "a shrinking of old industries with all the pain that such decline entails," on the ground that "if we believe that worldwide economic growth promises a better life for all mankind, we have a profound responsibility to help rather than hinder that promise."

It seems to me that the U.S. Secretary of Commerce has an even more profound obligation to defend and encourage the economy of the United States and the well-being and standard of living of her people, which Mrs. Kreps almost wholly disregards. Are American workers and consumers not the particular part of "all mankind" who deserve first claim on the attention of their own public servants?

If the claims of six million jobless Americans are "unpersuasive" compared to India's 100 million, at what point would they deserve consideration? Would it be only when America's unemployment rolls have soared to India's level and American living standards and nutritional standards dropped equally far?

Even more disturbing is Mrs. Kreps' misunderstanding, or misrepresentation, of the facts of trade, as practiced between totalitarian rulers of closed societies such as China and Russia on the one hand, and private Western profit-seeking corporate entities on the other.

It is precisely America's highest technology—much of it developed at public expense—that is being exported for private profit, undermining both national security and national welfare.

It is the outflow of American capital to build the industrial capacity of other nations and the abject surrender of American markets to the products of those nations that has weakened the dollar and sent America's balance of payments into a tailspin.

When America has declined to a "service economy," dependent for her people's daily needs on foreign industry, what then? Will China, Russia and other manufacturing countries, governed by military and political considerations rather than commercial interests, continue to send us all we need at "competitive" prices? The political blackmail and financial extortion imposed by the Arab-led oil cartel are a preview of what we can expect whenever foreign governments gain a stranglehold on the U.S. economy.

We need to have an industrial economy along with everyone else in the world. We need to have U.S. trade laws enforced so that steel and other products are not dumped into the U.S. market. The subsidies of exports must be halted by enforcement of our countervailing duty laws—not by another extension of the waiver of that law.

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*Reprinted by permission of the Washington Post, Jan. 29, 1979: A22. Letter to the editor by George Meany.

The remark in passing that "countries that seek our markets will have to open theirs" is the only bright spot in Mrs. Kreps' misguided article. But the utter failure, so far, of this and previous administrations to even try to bring the flood of imports and the outflow of technology, capital and jobs into any sort of rational balance, makes her words meaningless.

RESOLUTION NO. 126 INTERNATIONAL TRADE

AS ADOPTED BY THE 12TH AFL-CIO CONSTITUTIONAL CONVENTION—DECEMBER 1977*

U.S. foreign trade and investment policy must be balanced with America's need for jobs. Foreign economic policy should be geared to America's needs for a strong, growing economy. The Trade Act and other legislation should be administered to assure American domestic production as well as to encourage world trade. Fair trade and reciprocal relations are basic to policies that will help America and the world.

Negotiations with other nations should be based on the needs of the U.S. economy, not political expediency. The goal must be an expansion of trade based on fairness, reciprocity and mutual benefit.

New legislation is needed to regulate exports and imports. Exports in short supply should be subject to export controls, import relief provisions must be designed to assure adequate safeguards for the U.S. economy. Tax policies need to be reviewed both in terms of equity and in terms of their impact on trade. Imports of products and parts of products should be made identifiable by clear labeling as to country of origin.

Dumping of foreign-made products in the United States must be ended. Both quick enforcement of existing law and new legislation to assure government action should be adopted.

Countervailing duty laws against imports subsidized by foreign governments should be speedily enforced and no injury test should be required for subsidized imports.

In addition to these unfair trade practices, many foreign governments control their industries and manage their economies. U.S. policy and law have not adjusted to these world changes.

Quantitative restraints on imports are therefore essential to assure that U.S. industry can develop and remain diversified at home. Like quantitative restraints abroad, such regulations will not be designed to stop trade, but will assure imports in keeping with the nation's well-being.

New trade barriers have been added by other countries in recent years—quotas, tariffs and dumping duties. Most countries of the world have unwritten barriers to trade.

The United States has published laws, public procedures and stated policies. Against the background, negotiations to reduce tariffs are now going on. The AFL-CIO urges the Administration to insure that current negotiations and agreements protect the vital interests of American workers and industry. This means recognizing that U.S. tariffs are already low when compared to those of many other nations and that the U.S. cannot rely on the types of non-tariff barriers that are common practice abroad.

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*U.S. Congress. House. Committee on Ways and Means. Subcommittee on Trade. Unfair Trade Practices; Recommendations Submitted by Interested Individuals and Organizations on Amendments to U.S. Laws to Provide Relief from Unfair Trade Practices. Washington U.S. Govt. Print. Off., 1978. p. 46-62. (95th Congress, 2d session. Committee print. WMCP: 95-69).

The Overseas Private Investment Corporation (OPIC), a government agency that insures private investment abroad, should therefore be terminated as soon as possible. OPIC has been insuring huge multinational banks and firms abroad and encouraging the export of American jobs.

Imports of textiles and apparel have been subject to a multifibre agreement which is due to expire at the end of this year. This agreement should be renegotiated, improved and the growth of imports should be reduced.

Trade with Communist countries should be regulated more effectively through improved administration of Title IV of the Trade Act and by additional legislation that recognizes the economic and political fact of life that private commercial interests cannot negotiate effectively with closed and managed economics as governmental negotiators can.

Items 807 and 806.30 of the Tariff Code, which result in the export of American jobs; should be repealed.

Provisions in the Trade Act of 1974—the escape clause provisions against unfair competition, etc.—must be improved and enforced to help and build strong American industries and save jobs.

Imports, exports, technology transfers flows and investment must be reported in more detail, monitored and regulated. To this end, Sections 608 and 609 of the Trade Act of 1974, which require reporting of exports, imports and production, should be enforced so that comparisons can be made. The International Investment Survey Act of 1976 should also be enforced, so that foreign technology, investment and other transfers can be monitored and employment effects examined. New laws to regulate the transfer of funds, technology and investment need to be enacted.

Customs laws should be enforced with penalties assessed fairly. More, not less, customs reporting is necessary so that American trade policy can be made on the basis of fact.

Foreign grant, insurance and loan programs should be supervised in terms of U.S. interests at home as well as abroad. This means that Eximbank loans, guarantees and insurance activities should be carefully limited both in amount and in the authority to expand the action.

Title V of the Trade Act, the so-called generalized system of preferences which permits over $3 billion a year in imports without any tariffs at all for many products manufactured by cheap, foreign labor, should be repealed.

Tax loopholes and incentives for multinational companies to move abroad should be ended, the tax deferral halted, the foreign tax credit repealed and DISC abolished.

Adjustment assistance for workers must be completely overhauled to assure that workers injured by imports receive assistance. Adjustment assistance, which is essentially a welfare program, is not a solution for America's trade problems.

The Foreign Trade Zone Act of 1934 should be repealed. Any exemptions from this nation's trade laws must be proven on a case-by-case basis. The U.S. government should seek treaties to end exploitation of workers in trade zones in foreign countries.

Codes of conduct for the operations of multinational corporations are necessary, but are no substitute for strictly enforced U.S. laws that prohibit bribery of foreign officials and participation in economic blackmail schemes designed to negate American foreign policy. Similary, international agreements are needed to improve labor standards in those countries that seek to attract industry through the exploitation of workers.

The AFL-CIO supports healthy, fair trade that will build a strong American economy. We oppose the continued export of American jobs and industry, which has undermined the economy. We shall pursue every possible relief for the injury already sustained, as well as new legislation to halt the drain on this nation's economy.

The AFL-CIO with its affiliates will develop a coordinated, effective program for these goals. We will use all departments—legislative, education, research, public relations, publications, organization and field services—to assure protection for American workers' jobs and living standards.

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON INTERNATIONAL TRADE

BAL HARBOUR, FLA., *February 21, 1978.*

The AFL-CIO Convention last December called for changes in United States trade policy, administration and law to create "healthy, fair trade that will build a strong American economy."

In the two months since that convention, evidence of the serious trade crisis has mounted:

In 1977, America suffered the largest trade deficit in history—$27 billion—more than four times the $5.9 billion deficit of the previous year.

Statistics for the first nine months of 1977 indicate that imports rose substantially in every industry category: oil rose by $9 billion over the same period in 1976, consumer goods imports by $3 billion, imports of automotive vehicles, parts and engines by $1 billion; imports of capital goods by $1.5 billion; imports of industrial supplies and materials other than oil, $4 billion; and imports of foods, feeds and beverages by $2 billion.

Meanwhile, United States manufacturing jobs failed to recover from the 1974–75 recession. Employment in those goods-producing industries was down almost $500,000 between December 1973 and December 1977. During the last four years, imports of manufactured products rose more than 70 percent.

These developments have not gone unnoticed. The press here and abroad reports a change in mood:

The Associated Press reported a poll showing that 85 percent of those asked about imports thought protecting United States jobs is an important policy goal. The Economist notes that protection is needed because manufacturing cannot adjust. The New York Times and the Wall Street Journal describe this as a period of protectionism. The Journal of Commerce carries advice to business on how to adapt to world protectionism.

While every other nation is engaged in protecting itself against imports that would hurt its economy, United States labor and producers lack protection.

The rising flood of imports continues unabated with a projected 1978 deficit as large as 1977's record. The President has recognized "serious injury" only in three industries in the past year and no effective action has been taken in most areas of danger.

International negotiations fail to reflect the urgency of America's crisis. The agreement with Japan would do little to improve the United States-Japan trade imbalance in the near future. The United States continues to offer to cut tariffs even further in the GATT negotiations and to remove so-called non-tariff barriers—ignoring the pleas of workers who have lost or are losing their jobs to imports.

No single negotiation, no single law will alleviate the trade impact on U.S. jobs. Thus the AFL-CIO asks Congress to address a number of the policies that now result in the loss of United States jobs.

Congress is already considering some of this legislation. In other areas, new legislation needs to be introduced.

We call upon the Congress to take the following legislative action:

1. The customs procedural reform bill, already passed by the House and currently before the Senate Finance Committee, should be amended to require more precise, accurate and detailed reporting of imports at the time and place of entry. Such data are essential for import relief, adjustment assistance, and the monitoring of trade flow. The bill should not allow an increase in the value of imports that are granted an informal entry procedure from $250 to $600—a change which could remove hundreds of thousands of items from the trade statistics. The biggest impact would be on low-value imports such as work gloves, shirts, nuts and bolts, electronic parts and handbags. With a lack of reporting, the inrush of imports may be so great that markets are disrupted without any recourse at all. We urge that the current $250 test be maintained and that more detailed entries be required.

Moreover, we object to reducing the penalties on those who make false statements to the government, but we support the moves to assure due process.

2. Anti-dumping procedures must be improved to provide speedy, effective relief. Dumping is a predatory and unfair trade practice that must be stopped, and the need for speed is essential.

Treasury and the International Trade Commission should be required to make a final determination within six months of filing of a dumping charge. We believe this can be accomplished by simultaneous processing of cases by the two agencies and increasing the staffs assigned to dumping.

An effective interim deterrent to stop the unfair practice is needed. An importer should pay in escrow the full amount of estimated dumping duties at the time of a finding of "sales at less than fair value," pending a final determination.

The burden of proof should not be on the injured. Under the present system, complainants are asked to supply detailed information on costs and other facts which are often not available to them.

The government should initiate investigations when imports increase rapidly or there is reason to believe dumping is occurring. We suggest a 10% increase in imports as a trigger for action.

The Trade Subcommittee of the House Ways and Means Committee held oversight hearings on these matters in the past few months. The subcommittee has asked for legislative action along these lines.

3. Trade adjustment assistance is needed for those displaced by imports. Legislation sponsored by Rep. Vanik, chairman of the Trade Subcommittee of the House Ways and Means Committee, is being marked up. The specific AFL-CIO recommendations to improve this legislation have been presented to the subcommittee. Employees hurt by imports need protection against arbitrary time limitations restricting eligibility for assistance. Benefits must be extended to those directly affected as well as those indirectly affected—such as workers bumped by another worker who has been displaced by trade, or employees of parts and components manufacturers laid-off because of imports. CETA jobs or other jobs should be provided, particularly for those older workers who cannot find another job. Workers close to retirement must be assured that they will not lose proper retirement benefits because of trade-induced layoffs. Other fringe benefit entitlements need to be reviewed to adequately protect displaced workers.

The Administration has not yet formally annouced its proposals on trade adjustment assistance.

4. *Repeal of Items 806.30 and 807*—which is provided for in a number of bills pending before the Trade Subcommittee of the House Ways and Means Committee—would close an unwarranted import loophole. These provisions result in the export of American jobs. Under 806.30 and 807, a company can take certain components (such as television components and garments) made in America, export them to be assembled in a low-wage country, and then re-import the final product. A traiff is paid only on the value added, not on the full value of the product. When the value added consists primarily of wages paid at rates as low as 20 cents an hour, the tariff amounts to practically nothing.

5. *Repeal title V of the Trade Act* which provides undue preference for imports from low-wage countries.

Preferences or zero tariffs for imports from low-wage countries are obsolete and unrealistic. Total imports from developing countries now account for more than half of all United States imports. Manufactured imports are increasing very rapidly from these countries. Worker exploitation, abandonment of human rights and hideous working and living standards prevent potential benefits of rapidly-expanding trade from reaching the people of these countries.

End of deferral on foreign profits

6. *End tax loopholes that export jobs.* United States-based multinational corporations currently pay no taxes on profits earned on overseas operations until those profits are brought back to the U.S., which may be never. Multinational corporations use this loophole to expand and enlarge their overseas operations, at the expense of workers in this country. President Carter has called for repeal of his tax proposals, and the House Ways and Means Committee will hold hearings in March.

Removal of foreign tax credit

Multinational corporations are permitted to subtract from their U.S. corporate income tax—on a dollar-for-dollar basis—all taxes paid to foreign countries. We believe this tax credit should be changed to a deduction.

Elimination of domestic International Sales Corporation

Multinational corporations are permitted to set up dummy subsidiaries—DISCs—in the U.S. to handle export sales. Corporations are permitted to defer payment of United States income taxes on a third of export sales profits. There is no evidence this tax subsidy has increased exports. Instead, companies have simply increased their net profits after taxes, shifting more of the tax burden to American wage earners.

The President has supported repeal in his tax proposals and hearings are scheduled before the House Ways and Means Committee in March.

7. The Overseas Private Investment Corporation should not be extended when the House considers the bill now before it.

Legislation to extend OPIC passed the Senate in 1977, but the House failed to complete action before OPIC's authority expired December 31, 1977.

As an agency of the United States government, OPIC encourages the export of American capital and jobs. It insures U.S. corporations against loss of investment in foreign countries resulting from expropriation, revolution, etc. If those claims by corporations overseas exceed OPIC reserves, the difference is paid by the American taxpayer.

8. Countervailing duty provisions should be improved when the House Ways and Means Committee considers legislation in this area this Spring. Remedies need to be speeded up and made more automatic.

When foreign governments forgive value added taxes on products exported to the U.S., a countervailing duty should be provided to offset this unfair subsidy. Countervailing duties should be applied against government-owned or subsidized facilities that provide an unfair advantage.

9. Eximbank funds should not be used for financing foreign production or to aid Russia, Communist China or South Africa. Continuation of the Eximbank will be the subject of hearings in March before the House and Senate Banking Committees.

The Bank was intended to promote U.S. well-being, but now the Eximbank wants to finance foreign production. The Eximbank should be prohibited from financing loans to Russia, Communist China and South Africa.

10. Fair labor standards criteria must be applied to the acceptance of imports into U.S. markets to assure fair competition.

Foreign producers should be required to meet minimum labor standards or face import quotas and other trade restrictions.

Unlike workers in this country, workers in many nations have no worker's compensation, unemployment insurance or social security programs enacted to protect workers and their families. Similarly, most foreign workers do not have the protection offered by various American occupational safety and health statutes. Typically, their wages are substandard, and in many countries child labor and slave labor conditions exist.

Until international agreements are negotiated to improve labor standards, the U.S. should prohibit import from those countries that permit inhuman working conditions.

11. Preferences for United States' workers, builders, producers and shippers should be included in all trade and appropriation bills.

For example, H.R. 3350, the Ocean Mining Bill, should include a section preferring U.S.-flag vessels and requiring the location of processing plants in the United States. H.R. 9427, S. 2318—extending Buy-American laws to steel purchases for state and local construction projects—should be passed.

12. Adequate remedies for trade-related injuries to workers in service industries, films, airlines and maritime should be developed.

The virtually unprotected U.S. service industries are experiencing greater difficulty competing against unfair foreign trade practices.

Service industries need protection under the law from dumping and other unfair trade practices, especially those practiced by communist nations. Issues related to service industries should not be included in the Multilateral Trade talks in Geneva.

13. *Tariff-cutting agreements* arrived at through the GATT negotiations should be subject to specific congressional approval. Results of negotiations on the elimination of non-tariff barriers are currently subject to congressional ratification under the Trade Act of 1974. However, agreements to reduce tariffs may now be made by the President without specific congressional approval. The Administration-supported 40% cut in tariffs and a bigger reduction in high tariff items will, in our estimation, be harmful to workers, add to unemployment and depress American manufacturing. Congress should be provided detailed information on effects of any negotiated changes, and be required to specifically approve or disapprove these changes.

14. *The Multifiber Agreement* needs to be supplemented with bilateral agreements with major textile and garment manufacturing nations. Products subject to the Multifiber Agreement should be excluded from the GATT tariff discussions. Leather apparel should also be included under the MFA.

15. *Fair Trade Legislation* should be developed to regulate imports and we will press strongly for its enactment.

A new positive approach must be designed to use market penetration as a benchmark for regulating and monitoring trade. No single percentage and no single benchmark period would solve all problems, but fair regulation is needed.

The U.S. is and must remain a major manufacturing nation, a great agricultural producer, and a major maritime force. We cannot allow any one of these sectors to be destroyed by unfair trade competition.

We believe the U.S. should continue to share its markets. We believe in international trade. We do not believe that U.S. can isolate itself from the rest of the world in trade matters, nor do we think it desirable to do so. But international trade must be fair trade—fair to all nations, and today it is not fair to American workers.

THE CHANGING WORLD OF FREE TRADE *

Mr. BENTSEN. Mr. President, throughout the post-World War II period, the United States has based its strategy for security and global stability primarily on geopolitical considerations. We have been concerned in the first instance with countering our traditional rivals, particularly the Soviet Union, on the chess board of international politics and power relations.

Without discounting the patent Soviet strategic menace to the United States, it has nevertheless become apparent that today the threat to our future as the most powerful and prosperous nation in the world is as much economic as geopolitical.

In the early postwar era, the United States of America was the supreme, unchallenged factor in every aspect of the world power equation. We were the only nation to control nuclear weapons. Our economic infrastructure emerged from the war stronger than ever. Our gross national product was greater than that of the rest of the world combined. We held virtually all of the world's only functioning monetary reserve—gold. We had no significant dependence on any country or group of countries, while many nations were dependent on us.

Today, strategic superiority has clearly become a thing of the past and there is legitimate debate about the degree to which we retain even parity with the Soviet Union. There can be no debate, however, about the dramatic shift in our economic posture with respect to the world, or the extent to which we have receded from a position of dominance to one of interdependence and vulnerability.

It would, of course, be unrealistic to pretend that the United States could, or should, continue to dominate the world economy in 1979 as we did in 1948. We long ago recognized this fact and, for both selfish and altruistic reasons, made a conscious effort to improve the quality of life and encourage economic expansion throughout the world.

A major postwar concern of the United States was to foster economic growth and political stability in Western Europe and Japan, regions which ironically have become our major competitors in the international marketplace. In Europe, the Marshall plan was a particularly bold and farsighted effort to contain the spread of Soviet influence by establishing democracy and prosperity as an attractive alternative to communism. Our postwar policies were also characterized by generous programs of foreign assistance and an overt willingness to permit our friends and acquaintances to protect their shattered economies while according them relatively free access to ours.

As part of our effort to win the friendship and respect of countries devastated by war and influence less developed nations to resist the spread of communism, trade policy became an important form of aid. Unilateral trade concessions were willingly and knowingly granted for essentially political purposes.

Our postwar approach to international trade and assistance was founded on the premise that "the rising tide lifts all boats," and its corollary, "What's good for the global economy is good for the United States. We'll get our share."

Convinced of the validity of the rising tide thesis and encouraged by its apparent success, an entire generation of American policymakers became conditioned to accept uneven rules of the game in financial and trading arrangements with the rest of the world. If political benefits were achieved at an economic cost, if we got the short end of the stick in a negotiation, there was still plenty to go around and no cause for alarm.

Other nations, in turn, became accustomed to U.S. generosity at the negotiating table, to the extent that they now appear incredulous or even outraged when we attempt to bargain in essentially our own self-interest.

For at least a decade after the war, the United States could afford to make economic, trade, and aid decisions on a political rather than economic basis. Today all that has changed. The past 30 years have seen shifts in the relative political and economic influence of nations more dramatic than at any time in the 20th century. We have been slow to recognize and respond to these changes, particularly as they relate to our trade relationships.

We have been slow to appreciate that factors beyond our control, such as the breakdown of the colonial system, the rapid spread of technical production skills to Second and Third World countries, the proliferation of multinational corporations, the rise of economic nationalism, state ownership of industrial enterprises, and the control of major reserves of world mineral and energy resources by Third World countries, have helped fashion a world economy that

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*Remarks by Senator Lloyd Bentsen in the Congressional Record [daily ed.] vol. 125, May 3, 1979: S5212–S5216.

bears little if any resemblance to that which existed immediately after World War II.

In a very fundamental sense, and in a relatively short period of time, the United States has moved from a tradition of essential self-sufficiency into an era of international interdependence. Our adjustment to date has been neither very easy nor very successful.

Once the major creditor to the world, the foreign-held debt of the United States today is larger than that of all countries combined. We are heavily dependent on foreign sources for almost all important minerals, many of them essential to our continued prosperity. In 1950 the United States produced 88 percent of the oil it consumed, and cheap energy was a key to our economic success. Today we import nearly 50 percent of our petroleum and will pay nearly $50 billion a year for the privilege.

In 1971 we ran our first trade deficit in 50 years. Between 1971 and 1976 we had an accumulated trade deficit of $13.3 billion. In 1977 we doubled that figure with a single year deficit of $26.5 billion. In 1978 our deficit rose to $32 billion—$12 billion with Japan alone—and this trend can only be reversed by substantive changes in our approach to trade.

U.S. production today is a declining proportion of world output. In 1965 the United States generated 14.3 percent of the world's exports, and took 11.8 percent of world imports. In 1977 our share of world exports was down to 10.7 percent while we increased our import position to 13.6 percent.

According to Department of Commerce data, U.S. export growth has averaged 7 percent annually since 1974, while imports have simultaneously avaveraged an annual growth rate of 13.5 percent.

A recent study by the National Associ-there was no real U.S. export growth in 1977—a year of relatively high domestic growth—but imports increased by 12 percent.

The U.S. share of free world exports declined from 18.2 percent in 1960 to 11.8 percent in 1977.

Our domestic rate of productivity increase, a key indicator of our economic performance and potential, is the lowest of any industrialized democracy and is only one-eighth the figure for Japan.

During the past 5 years the Japanese yen has appreciated by almost 75 percent, and the German mark by 67 percent, while the dollar has depreciated. With oil prices based on dollars, the changing ratio for the mark and yen relative to the dollar has helped Germany and Japan curb inflation while ours has increased.

Our economy is expanding and inflating, sucking in vast quantities of imported commodities and finished goods. We absorb neary half of all world production and a substantial share of all world exports—but we find ourselves increasingly unable to market successfully our products abroad. We are no longer paying our way in international trade.

In assessing the dramatic changes that have occurred in the world economy over the past 30 years, changes that have generally worked to our disadvantage, the tendency in this country has been one of self-flagellation while foreign leaders have taken conspicuous pleasure in lecturing us on our faults. We have seen in this country a tendency to despair and an assumption that we are headed down hill into a period of very slow growth and inevitable loss of world leadership.

Any such attitude is unwarranted, defeatist, and dangerous. The economic crisis we confront today—and it is indeed a crisis—is largely of our own making and we clearly have the power to redress it. Rather than retreat into despair and self-doubt, we must attempt to understand the root causes of our problems and take appropriate steps to restore this country to its traditional position of economic preeminence.

One basic cause of our economic difficulties is our failure to adjust traditional, historically successful trade and economic policies to the current realities of the international marketplace. In many respects, the United States still approaches questions of trade with that splendid spirit of munificence and good will that served us so well in the first two decades after the war but is sadly and dangerously out of place today.

There is no longer any fat for us in the international trading system; it is in the fire. To the extent that we delude ourselves by continuing to believe that the world of trade is that of years long past, we run the risk of destroying our economic credibility and strength.

I have been a consistent advocate of the freest possible trade between nations throughout my career in public life. The world of free trade, however, rests on a cliche, which is that free trade must be fair trade, and all parties must abide by the rules. Today, the global economic scene is characterized by intense economic competition among countries with completely different political institutions and sharply contrasting national economic objectives. Trade between nations is becoming an increasingly carnivorous activity, and the traditional free trader has all the advantages of an antelope in a world of lions.

Startling changes in international economic trends and trading practices call into question the continued relevance of historical free trade doctrine. There is strong evidence that the "rising tide" of the world economy is no longer rising and, as that tide ebbs, there is a good chance that many U.S. boats could end up on the beach.

After a sustained postwar period of rapid global economic growth, the prevailing trend lately has been in the direction of global economic stagnation. Slower growth and higher rates of unemployment in many areas have resulted in keen competition for international markets, and the emergence of aggressive, self-promoting mercantilism in many industrialized and resource-rich countries.

In order to maximize the share of world resources available to its citizens, governments have joined hands with their industry—the United States being a notable exception—to enhance the competitive position of individual nations or sustain inefficient state-controlled economic enterprises. As ecopolitics has come to replace geopolitics as a paramount concern in many states, a policy of encouraging export earnings and discouraging foreign competition has become a tacit, but essential element of national policy among most of our trading "partners".

Of the 20 largest firms in Western Europe, half are wholly or predominantly state-owned. With the vast resources of the state behind them, firms like British Steel can afford to lose over $800 million a year because they receive more than $1 billion in government support.

As Hugh Menzies pointed out recently in Fortune magazine, state-controlled companies now produce 8 percent of the non-Communist world's oil, 40 percent of its copper, and 33 percent of its iron ore and bauxite. In manufacturing, they turn out 54 percent of the steel, 35 percent of the polyethylene, and 20 percent of the automobiles.

State-controlled companies are also making headway in areas of high technology, frequently by robbing American expertise. The British National Enterprise Board, for example, is building a state-owned company in the United States in order to hire away top American scientists in one of our most rewarding technologies—semiconductors. It is difficult to believe that this technology, once purchased, will not be transferred to Britain where it can be nurtured with Government support and eventually turned against the United States.

Our international competition in the field of civil aviation is entirely government owned or controlled. The international consortium that produces the A-300 airbus has a guaranteed market of state-controlled national airlines and, with government backing, is in a position to offer attractive purchasing arrangements.

The American petrochemical industry, which has been a major and effective exporter of chemical products, will obviously become a tempting target for developing nations with vast deposits of oil and gas, and substantial surplus capital to invest. We can expect to see many of these countries use American technology to establish their own state-supported and financed petrochemical industries which will be able to sell at a loss in an effort to drive private corporations out of the market.

These same nations have united in cartels to control the price and availability of raw materials essential to the economies of the industrialized nations. The major consuming nations have proved unwilling or unable to develop a concerted response, with the result that the OPEC states have been able to play them off against each other, further increasing cartel leverage. The implications of this situation for "free trade" among nations are all too apparent.

In coming years, America could well become vulnerable in even our strongest areas of technological superiority. Stanley Harman has noted that the government-industrial establishment known as Japan Inc. has targeted the computer and softwear market for penetration in coming years. Japan Inc. has encouraged the cartelization of its computer manufacturers to maximize resources, has protected this fledging industry, and provided funds to finance joint research and development. By way of contrast, Mr. Harman notes that the continuing antitrust case of the United States against IBM is now entering its 10th year.

In the intensely competitive environment of international trade, with its web of special relations between the public and private sectors, the United States of America is the only nation where business and government tend to operate in an adversary relationship. We make it difficult for American firms to form consortia to bid on international contracts. We do not have a Department of Trade to encourage our exports. We lack even a coherent, well-developed policy of export promotion. It remains difficult for our manufacturers to obtain timely and effective relief from unfair foreign competition like dumping and subsidies. The simple act of obtaining an export permit is frequently a costly, time-consuming experience.

It is rapidly becoming apparent that, if left unattended, our international trade problems could lead to our undoing. No nation, not even one as fundamentally strong and prosperous as ours, can long endure a hermorrhage of dollars running at $30 billion per year. The impact on domestic inflation, on the strength of our currency, and on the level of economic in our economic system is obvious and alarming.

The crisis of trade is upon us. Our ability to respond effectively, creatively, and hopefully in concert with the international community is one of the most urgent and important tasks facing American policymakers. We can no longer afford simply to forecast an improvement and hope it comes about.

1979 will clearly be a year in which trade issues, and particularly the MTN, will be high on the list of congressional priorities. Foreign governments have been quick to learn the pressure points of the American political system. They hire the right public relations firms and take our full page ads in our media to assure us that their markets are open and they are bending over backwards to help with our trade problems. One wonders how these governments would react if we took out such ads in their press and merely listed the corresponding prices of exported items in their country and ours.

In the months to come, we will hear a great deal about the dangers of "protectionism," which could lead to "retaliation" and precipitate a global trade war. "Don't forget what happened in 1929" and frequent references to the Hawley-Smoot tariff will be the order of the day. Members of Congress who suggest that we must, if necessary, be prepared to take unilateral measures to protect domestic industries and the integrity of our economy will be branded with the scarlet P of protectionism and incur the opprobrium of free-traders worldwide.

For many years the United States has been a leading apostle of free trade. We are not without protectionist provisions, but more than any other nation we have opened our markets to foreign competition, even when it hurts. To a remarkable degree, we have practiced what we have preached in our approach to international trade. Unfortunately, this free market commitment is genuinely embraced by relatively few of our trading partners.

The ideal world of free and fair trade does not exist today and there is little reason to believe it is just around the corner. The practice of free and fair trade seems, in fact, to be on the decline worldwide.

The Multilateral Trade Agreements, ably and artfully negotiated by Ambassador Strauss, should eventually represent a marginal improvement in world trading relationships, but they represent neither the immediate nor the ultimate answer to our problems with trade. Many of the advantages contained in the MTN are either ephermeral—since the negotiations, by definition, are a zero sum game in which we give as much as we receive—or will not be realized for years to come. Our trade problems are of such a magnitude and urgency that the MTN, in and of itself, does not constitute an adequate remedy, and I believe those who have negotiated it would concur in this conclusion.

If we are to succeed in the area of international trade, we must recognize that there are irreconcilable, probably permanent, economic and political differences between countries and regions that need not be a barrier when mutually advantageous trade is possible but can nevertheless serve to distort traditional trade doctrines. We must begin today to shift our emphasis from a global approach to a long series of pragmatic, toughly-negotiated trade and monetary arrangements based on a realistic concept of our own self-interest.

We might well begin this process with a close look at our trading relationship with Japan, our staunchest friend and ally in Asia. During the period 1968–78 the United States had an accumulated global trade deficit of $54.3 billion, $40.8 billion of it—or 75 percent—with Japan. We have had a balance-of-trade deficit with Japan every single year since 1965.

It would be difficult to refute the assertion that there is a glaring asymmentry in United States-Japanese trade. During the past 6 months I have frequently voiced my concern about this problem and suggested that a $12 billion trade deficit with any nation is intolerable and, regardless of its ultimate causes, cannot be permitted to continue.

One obvious and certainly preferable way to restore some semblance of balance to this relationship would be for the Japanese to purchase more from this country. If it is impossible or impractical for the Japanese to buy more from us, then we must be prepared, to purchase less from them. I can see no good reason for the United States of America to commit economic hari-kari on the altar of a bogus free trade relationship, and I believe this position has substantial support in the Congress and among the American public.

This country, with its historical commitment to the freest possible trade, its leadership role in GATT and world financial institutions, its enormous market for world exports, and its current trade crisis, has every right to demand equal access to world markets as an essential precondition to continuing "free trade." We can no longer afford to accept situations in which our domestic markets are more permeable than those of our competitors. Where inequality exists, other nations must either remove restrictions or be prepared to confront offsetting measures in this country. If such a position is parochial, then there is an inherent logic in parochialism that cannot be denied.

There is substantial and frequently legitimate concern in this country about nontariff barriers to trade. In an era of cutthroat economic competition, any discussion of this matter immediately becomes charged with controversy, and figures are pointed in all directions. The issue is further clouded by the fact that a nontariff barrier, by its very nature, is difficult to document. A recalcitrant, committed bureaucrat can be a formidible obstacle to free trade.

In recent years, our resentment over nontariff barriers has tended to focus on Japan. There is broad agreement that discriminatory Japanese trade practices must be exposed and abolished. There are differences of opinion over the extent to which this concern is legitimate and justified, but the reasons for its existence are not hard to discern.

I sincerely welcome, I am encouraged by news this morning that President Carter and Prime Minister Ohira have reached long-term agreement on economic issues. This is the stuff of which successful state visits are made. But it is also important to understand that we have heard these assurances before, most recently in January 1978, and they have not been effective. They have not worked. After Prime Minister Ohira leaves Washington, after the flags are down, after the banquets are over, we shall still have important work to do as we attempt to establish our trading relationship with Japan on a basis of equity.

In 1976 we had a $5.3 billion trade deficit with Japan. We were alarmed. We sought and received assurances that the Japanese would act to redress the situation. In 1977 the deficit rose to $8 billion, and our protests resulted in the Strauss-Ushiba agreement, which would theoretically relieve the problem. Last year our trade deficit with Japan rose to $12 billion, and it became apparent that we are making progress backward, all assurances to the contrary.

In addition, many American firms find it inordinately difficult to do business in Japan, despite the fact that the Japanese Government, in response to our protests, has taken steps to delete some of its overtly protectionist legislation. There nevertheless exists within the American business community, and on the part of many independent observers, the distinct impression that the Japanese—who quite correctly attach extreme importance to their performance in international trade—have for a variety of largely sociological reasons, woven a cocoon of frustrating and frequently impenetrable nontariff barriers around their economy in order to protect domestic industries and discourage imports. Thus, together with the unusually cozy relationship between the Japanese Government and corporate conglomerates—Japan Inc., cause many people to question the extent to which one of our major trading partners is playing by the rules of the game.

In response to this concern, the point is frequently made that the United States does not try hard enough to export to Japan, that we are gradually losing our share of the Japanese market to our international competitors. To the extent that we are indeed a declining factor in Japanese purchases from abroad—the point can be argued both ways—this may well be attributable to the fact that countries such as the EC members are hardly reluctant to bring substantial and apparently successful pressure to bear on the Japanese and deman greater access to their markets.

The recent report by the Common Market's Executive Commission contains startling evidence of European discontent over Japanese trade policies and surpluses. The tenor of the report and its derogatory references to the Japanese people are, in my opinion, entirely uncalled for and out of place. It quickly becomes apparent, however, that the European nations—whose trade deficit with Japan is only $6.8 billion compared to our figure of $12 billion—are more than prepared to threaten retaliation in no uncertain terms unless the Japanese take prompt action to redress the situation. It is apparently not out of place in Europe to recommend consideration of "certain measures which would reduce in a significant manner—though not in a sufficiently important way to spark a worldwide trade war—Japanese imports into the European Community."

I fully appreciate the importance of trade and friendship between the United States and Japan. I frankly admire Japan's ability to compete internationally and think we could learn from the way the Japanese manage their economic affairs. I recognize that the Japanese Government has stated it is prepared to work with us to resolve our trade problems.

None of this, however, detracts from the basic fact of an enormous, ongoing bilateral trade deficit with Japan which, despite evidence of short term improvement, gives every indication of continuing far into the future.

I believe we have a right and an obligation to cast some light on the reasons underlying our trade problems with Japan and other nations such as South Korea, Taiwan, Singapore, Indonesia, and Hong Kong, with whom we have a combined deficit nearly as large as with Japan. I believe we must determine what can be done to resolve these trade problems, multilaterally if possible, unilaterally if necessary.

Last December I asked the General Accounting Office to undertake an analysis of Japanese trade policy for the Joint Economic Committee to determine, on a case study basis, the extent to which Japanese nontariff barriers constitute obstacles to American exports. During the summer, after the June economic summit in Tokyo, I plan to hold comprehensive hearings in the JEC on United States-Japanese trade and the results of the GAO study.

At a time when Japan is running huge trade surpluses and we have a deficit of over $30 billion, I think we should know why:

We are unable to conclude an agreement on Government procurement with the Japanese that would permit American firms full access to bids on orders worth over $3 billion annually placed by the Nippon Telephone and Telegraph Corp. The Japanese are consciously and steadfastly protecting a significant market in which we are particularly competitive. It is not by accident that the NTT purchases only four-tenths of 1 percent of its equipment from abroad. If the Japanese are unwilling to eliminate this overtly protectionist restriction, which has assumed important symbolic overtones, then one must question their willingness to help us address common trade problems.

The Japan Tobacco & Salt Public Corp., with a monopoly on the $7.5 billion tobacco market, marks up the price of American cigarettes by 350 percent, rendering them uncompetitive with Japanese citgarettes; and prohibits American brands from advertising in Japanese language publications.

The Japanese have a "high yen measures law" enabling the Government to underwrite any losses incurred by eligible exporters as a result of the rise in value of the yen, thereby negating the equilibrating forces, including the famous J-curve effect, that are supposed to bring our trade back more nearly into balance.

The cheapest color television set available to the Japanese consumer sells for $600 while an American consumer can buy an equivalent Japanese set in this country for about half that price.

The Japanese public is forced to pay $45 per pound for beef, when American producers could put quality beef on the Japanese market for a small fraction of that cost.

The Japanese make product approval inordinately difficult and time consuming for foreign competition and frequently refuse to accept testing data done outside the country. A review of cases pending before the Joint United States-Japan Trade Facilitation Committee provides clear evidence of the degree to which testing procedures and standards based on design rather than performance criteria inhibit the flow of U.S. goods into the Japanese market.

Japan, which produces no grapefruit, nevertheless retains strict quotas—despite recent concessions—on the importation of American grapefruit and juice.

Why Japan, having established a $12 billion trade surplus with this country, balks at the expedited lowering of tariffs, previously agreed to, on computers, semiconductors and color film.

This is merely an illustrative list of the sort of questions that must be answered in a dispassionate, unbiased manner if we are to understand and better manage our trade problems with Japan.

As we strive for symmetry in United States-Japanese trade at the highest possible level and insist on the elimination of Japanese nontariff barriers, it is important to understand that we are not seeking confrontation with Japan.

We are, however, prepared to insist that Japan, which has become a ranking world economic power, accept the responsibilities that inevitably accompany that status. The sort of insular, siege mentality that characterizes the Japanese approach to international trade was understandable in the wake of World War II, but is grossly out of place for a major world trading power in an era of interdependence.

Probably more than any other nation, Japan benefits from international trade and has a vested interest in preserving its access to world markets, particularly that of the United States. Japan also benefits from the global stability and sense of security that is a direct result of our willingness to devote a substantial portion of our wealth to the defense of the free world. The Japanese reap the advantages of the American security blanket but contribute virtually nothing to the cost of this effort, and spend 1 percent of their gross national product on defense. The comparable figure for the United States is 5 percent.

Despite the existence of a $12 billion trade deficit in 1978, it is clear that Japan is not the sole source of our trade problems. It would be wrong and self-defeating to attempt to export the blame for our economic difficulties. There are some nasty scars on our back, but many of our trade wounds are self-inflicted. They result from our past patterns of generosity, tolerance in negotiations, a radically altered international economic environment, and longstanding domestic economic policies urgently in need of reform. The United States will not become truly competitive in the international marketplace until we put our own economic house in order.

There are important measures we can and must take to protect our domestic producers and encourage American exports without doing violence to the current system of international trade. We should be prepared to act promptly to insure that American industry has adequate protection against predatory trade practices. We can no longer tolerate situations in which foreign competitors utilize unfair trade practices to rout and destroy a domestic industry, such as television, and remain immune from punishment until they have achieved their objective.

Existing fair trade laws need not be enforced in a protectionist manner, but they should be enforced and improved to make enforcement more timely and effective. There is reason to believe that Congress will take appropriate action in this area in the context of MTN implementing legislation.

It is hardly enough, however, to provide effective relief from those who do not play by the rules of trade. We must, at the same time, make a concerted effort to awaken the American business community to the importance of exports, provide appropriate incentives and support for export activities, and do away with the adversary relationship between government and business that marks this Nation as unique in the international community and cripples our trade potential.

Ever since the World War II, the major concern of our economic policy has been to maintain an adequate level of demand in the system. This year's JEC annual report, which for the first time in 20 years was endorsed by all committee members, points out that the time has come for a fundamental reorientation in our economic strategy. The JEC reports suggests that the supply side of the economy should be our major area of concern and points out that policies which expand our capacity to produce goods and services more efficiencly are the most effective way to deal with our current economic problems.

We face a capital formation crisis of major proportions in this country, primarily because our tax policies for the past 30 years have punished savings and investment while encouraging consumption. Our approach to capital investment for the modernization of our productive capacity and for research—both of which have an important bearing on export potential—has retarded our ability to compete internationally.

Productivity growth in our economy is far from satisfactory, and increased by only 0.8 percent in 1978. Our rate of productivity growth for the decade 1966–76 was only 2.2 percent, a decrease of 45 percent from the previous 10 years. During the same period, productivity in Japan has grown by an annual rate of 8.9 percent, and we are seeing the results in our balance of trade. While it is true that U.S. productivity levels remain above those of our competitors, recent trends are alarming and hardly auger well for our future performance in international trade. We must take immediate steps to improve productivity in our economy; tax incentives for investment and liberalized schedules for depreciation would certainly be steps in the right direction.

Effective anti-inflationary policies, including decreased levels of government spending as a portion of gross national product, are obviously a prerequisite to improved performance in international trade. Our continuing problems with inflation erode much of the competitive advantage we should expect to enjoy from appreciation of currencies such as the yen and the mark. Chronic inflation renders many U.S. products noncompetitive in foreign markets and debases the value of our currency.

Finally, at a time when the Minister of Trade is frequently the second most important figure in the government of our competitors, potential U.S. exporters deserve the support and encouragement that would be provided by a Department of Trade and Investment along the lines proposed by Senators RIBICOFF and ROTH and recently endorsed by the Senate Finance Committee. With international trade becoming an increasingly competitive and important ingredient in national prosperity, there is a transparent need for a branch of Government with a mandate to assist and encourage our export performance.

To the extent that we can control inflation, reduce Government spending, increase productivity, and encourage savings and investment domestically, we shall inevitably enhance our ability to compete successfully in international markets. This is a challenge we are prepared to accept.

At the same time, we must continue to insist that the markets of our trading partners be demonstrably as open as ours, in practice as well as in theory. Our friends must understand that the United States of America, by far the world's largest consumer of world exports, will no longer tolerate huge, long-term balance of trade deficits, regardless of their ultimate cause. If such dislocations are inherent in the international trading system, then it may be time to take a new look at the system. It may be time to search for realistic, workable alternatives to "free trade" that will make this and other nations less susceptible to the rigors of ecopolitical competition between nations and blocs of nations.

In a world of perfectly free and perfectly competitive international trade, "free trade" might well deliver the benefits traditionally claimed for it, just as—given the conditions of a vacuum—a feather will fall as rapidly as a lead pellet. In the ideal world of free trade, we would have, every nation doing what it does best, free to export its achievements or abundance, and import its requirements. The globe would become a single economic entity, with all countries contributing to the benefiting from interdependence. In conjuring up these images, one can almost hear the sails of the clipper ships snap to the wind as we savor the benefits of triangle trade.

Unfortunately for this glorious global vision, our trading relationships are not conducted in the vacuum of theory. Rather, we are doing business, with a notable lack of success, in a real world of deficits and surpluses, cartels, government control of industry, widely divergent national objectives, and cleverly disguised protectionist attitudes and policies.

We need a trade policy that is fully consistent with these realities. We need fundamental reforms in domestic economic policy that will render us more competitive in international trade. We must kindle an awareness of the magnitude of our trade problems and the importance of export performance. We must work with our trading partners to eliminate inequities in the current system and, if we are unsuccessful in this effort, we must be prepared to consider alternatives to the doctrine of free trade that has been the hallmark of our international economic policy for so many years.

DEBATE PROPOSITION TWO

RESOLVED, THAT: THE UNITED STATES SHOULD SIGNIFICANTLY REDUCE PUBLIC AND PRIVATE DISTRIBUTION OF WEAPONS TO FOREIGN COUNTRIES

The export of U.S. arms, ammunition, and the implements of war has been a subject of controversy since World War I. Discussion has focused on the moral implications of exporting or denying arms to foreign countries, the impacts at home and abroad of arms traffic, and the nature, extent, and criteria of proper governmental arms export controls.

In 1976, Congress passed legislation establishing the Arms Export Control Act to improve Executive branch controls and congressional oversight of U.S. arms sales. In 1977, President Carter formulated a new conventional arms transfer policy. Both of these actions were taken after extensive study and debate, and both have stimulated a great deal of comment. Some parties, including many with manufacturer and exporting interests have called for less restrictive export policies; many government officials charged with foreign policy and national security responsibilities have sought to establish close government regulation of the flow of U.S. defense articles and services; while other concerned individuals and organizations have urged an end to U.S. arms exports to most countries.

The following articles were selected to provide basic background information on U.S. conventional arms transfers and the primary rationales used by various advocates. Since arms transfers overlap with both trade and aid, additional material that is relevant to this resolution may be found in the first section on the future of U.S. foreign policy and under the other two resolutions.

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Excerpts From Testimony of Hon. Lucy Wilson Benson, Under Secretary of State for Security Assistance, Science and Technology, Before the Subcommittee on International Security, Committee on Foreign Affairs, House of Representatives, February 26, 1979, Including FY 1980 Program Data

Mr. Chairman, Members of the Subcommittee: I am pleased to have the opportunity to testify on the Administration's fiscal year 80 requests for international security assistance. We are requesting an appropriation of \$2,794 million to finance programs totalling \$4,236 million. Let me state at the outset that this is a lean, bare bones request in keeping with the President's policy of budget austerity. It is the minimum request consistent with our national security and the security of our allies and friends abroad. I will return to this point later.

Developments in the Middle East and Southeast Asia have shown once again how the United States and friendly countries have shared concerns about security and defense. International defense cooperation is as important as ever.

The growing cost and complexity of modern defense equipment make it increasingly difficult for many allies and friends to meet all legitimate defense requirements by themselves. U.S. financial loans to help them acquire needed defense equipment and training involve modest sums but are of much significance.

Similarly, the need for cooperation in reinforcing regional stability by addressing social and economic problems in key countries has not lessened in importance, as the situation in the Near East clearly demonstrates.

In my testimony, I will review our arms transfer policy, briefly explain the general purposes of our security assistance programs, place the fiscal year 1980 requests in an historical perspective, and describe regional and country programs and objectives.

ARMS TRANSFER POLICY

The President's arms transfer policy is almost two years old. It has been successful in both policy and procedural terms.

We have met the twin objectives of (1) achieving demonstrable qualitative and quantitative restraint in transfers to the developing world while continuing to meet the legitimate needs of our allies and friends, and (2) developing a decision-making and management process that includes better forecasting and determination of priorities, thorough policy analysis of major sales cases, and more accurate bookkeeping.

Let me briefly review the six qualitative controls which are the heart of the policy:

1. The United States will not be the first supplier to introduce into a region newly-developed advanced weapons which would create a new or significantly higher combat capability.

2. The United States will not sell such weapons until they are operationally deployed with United States forces.
3. The United States will not permit development of advanced weapons solely for export.
4. The United States will not permit co-production by other countries of significant weapons, equipment or major components.
5. The United States will not allow United States weapons or equipment to be transferred to third countries without U.S. Government consent.
6. The United States will not permit United States Embassy, military or industrial representatives abroad to promote the sale of arms.

Virtually all of the turnoffs or turndowns of sales as a result of the policy were based on these controls. However, because the policy explicitly provides for Presidential exception to the controls in extraordinary circumstances or to offset quantitative or other disadvantages to friendly countries where there is a threat to a regional balance, the controls have proved sufficiently flexible to permit sales considered important to our national security interests.

There is a great preoccupation with the arms transfer ceiling. Some allege that the eight percent reduction in fiscal year 1978 was achieved only by creative bookkeeping. Others claim that the ceiling is an arbitrary restraint, unrelated to U.S. national interests, that has prevented sales that ought to have been made.

In fact the ceiling is not a shibboleth but a tool to be used. It has been a valuable management tool which supplements the more substantive qualitative controls. It forces the decision-making machinery to think and act in new ways, reflecting the shift in the burden of proof from the opposers to the proposers of an arms transfer. Moreover, by exempting NATO, Japan, Australia and New Zealand from the ceiling, ample attention was paid to security needs and the President provided the safety valve of an exception if circumstances warrant. Obviously the ceiling cannot be reduced indefinitely in the absence of fundamental political changes or multilateral cooperation. The President has stated that a key factor in the determination of arms transfer levels for fiscal year 1980 will be the extent of cooperation we receive from others.

For fiscal year 1978 the President set the ceiling at $8.551 billion—an 8% reduction from the relevant arms sales total of the preceding year. The final year—end total of ceiling—related transfers was $8.538 billion. Thus there was a decline in sales of over three quarters of a billion dollars from 1977 to 1978 adjusted for inflation. For the current fiscal year the President has established another 8% cut, which, when adjusted for inflation, provides for a fiscal year 1979 ceiling of $8.43 billion.

GENERAL PURPOSES OF SECURITY ASSISTANCE

Our military assistance, FMS [Foreign Military Sales] financing, and IMET [International Military Education and Training] programs directly support an important objective—to help friendly nations maintain adequate military establishments for their self-defense, thus contributing to both mutual security and maintenance of regional balances.

Our security supporting assistance (SSA) programs support the peaceful resolution of disputes by providing economic aid to nations in regions beset by serious conflict. They also promote the economic and political stability in selected countries and regions and support activities that further the national security interest of the United States.

All of our security assistance programs are designed to support our efforts to promote respect for human rights.

Our security assistance programs are not acts of charity; they serve mutual interests. Although the several military and SSA programs differ in content, they all contribute to the overriding U.S. foreign policy and national security interest—to shape a more peaceful world.

Unresolved conflicts in the Middle East, Southeast Asia, and Southern Africa—to cite only a few—call for continuing efforts by the United States and others to support peaceful solutions. Security assistance programs reinforce U.S. political ties, many of long-standing and proven value, with key countries in these unsettled regions. In addition, our security assistance programs and mutual security arrangements—as with the Philippines, Spain and Portugal—strengthen the global and regional security positions of the United States. Our steadfast support of these allied and friendly nations has proven beneficial to them and to us, and will continue to do so.

RELATIONSHIP TO HUMAN RIGHTS

The fiscal year 1980 programs continue this Administration's emphasis on the promotion of respect for internationally recognized human rights. We weighed the human rights practices of each proposed recipient country at each step of a rigorous budget process. Our requests are consistent with the President's policy guidance and all statutory requirements concerning human rights practices and security assistance.

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CONCLUSION

In conclusion, I return to my opening theme of austerity. We have carefully examined the fiscal year 1980 program requests. We cut programs where we thought they could be cut. We increased some programs and added a few new ones where we are firmly convinced it is in our interest to do so. The proposed fiscal year 1980 security assistance programs reflect our judgment of what is required to advance and sustain important U.S. national interests abroad during a period of belt-tightening at home. We believe these programs merit your support.

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CONGRESSIONAL PRESENTATION DOCUMENT

FISCAL YEAR 1980 SECURITY ASSISTANCE PROGRAMS

The security assistance programs proposed for FY 1980 are important instruments of United States foreign policy. By assisting friendly and allied nations to acquire and maintain the capability to defend themselves, we serve our worldwide interests in collective security and peace. By providing economic assistance in areas where the United States has special security interests and has determined that economic assistance can be useful in helping to secure peace or to avert major economic or political crises, we promote major United States foreign policy and national security interests. Through the military programs we provide defense articles, defense services and training by grant and sale. Through the Security Supporting Assistance (SSA) programs, we provide basic economic budget support as well as projects specifically directed toward meeting basic human needs in agriculture, health, family planning, and education on a loan or grant basis.

Many nations look to the United States for the equipment, training services and economic support they are unable to provide themselves and which they deem essential for the protection of both their independence and territorial integrity. At the same time, these countries expect steadfastness of policy and constancy of purpose in terms of their continuing ties with the United States. The security assistance programs are critical elements of this relationship.

In formulating the programs proposed in this Congressional Presentation Document, we have weighed human rights practices in each of the proposed recipient countries. We continue to emphasize the promotion and advancement of respect for internationally-recognized human rights. We are especially mindful of the mandate in Section 502B(a)(3) of the Foreign Assistance Act of 1961, as amended, that the President formulate and conduct his security assistance program in a manner that will advance the human rights practices of the governments of recipient countries. Full and factual accounts of human rights practices of governments of countries proposed for security assistance in fiscal year 1980 are being forwarded to Congress under separate cover, together with the reports called for by Section 116(d) of the Foreign Assistance Act of 1961, as amended, for countries receiving economic development assistance.

In May 1977, the President directed that our security assistance programs be formulated and implemented in a manner that is consistent with a policy of restraint in the field of arms transfers. At the same time, the President made it clear that we would continue to utilize arms transfers to promote our security and the security of our close friends. The security assistance programs proposed in this Congressional Presentation Document are consistent with this policy direction.

There are five major security assistance programs proposed for fiscal year 1980:

> *The Military Assistance Program* (MAP) by which defense articles and defense services are provided to eligible foreign governments on a grant basis. For fiscal year 1980, we are proposing a Military Assistance Program totalling $88.8 million in grants to four countries in which, except for Jordan, we have important military bases or facilities. In addition, an authorization for $55.8

million is requested for the management of the program and for the delivery of materiel funded under MAP in previous years. Of this amount, $31.0 million will be reimbursed from administrative charges paid by foreign governments in connection with sales, and, thus, the net funding request is for $24.8 million. The proposed fiscal year 1980 MAP program totals $144.6 million, compared to a total fiscal year 1979 program of $210.4 million which provides grant materiel for five countries. It is planned that after fiscal year 1981, grant military assistance will be provided only in exceptional circumstances.

The International Military Education and Training (IMET) Program by which training is provided in the United States, in the Canal Zone, and, in some cases, either in overseas U.S. military facilities or by the use of mobile training teams, to selected foreign military and related civilian personnel on a grant basis. For fiscal year 1980, we propose an IMET program of $32.9 million which would provide training to personnel from 52 countries. This compares to a fiscal year 1979 IMET program totalling $28.8 million which provides such training to personnel from 38 countries.

The Foreign Military Sales (FMS) Financing Program by which credits and loan repayment guaranties are provided to enable eligible foreign governments to purchase defense articles, defense services, and training. For fiscal year 1980, we are proposing an FMS financing program totalling $2,063.0 million with roughly half of this amount being allocated to Israel. In all, FMS financing would be provided to 25 countries. This compares to a fiscal year 1979 FMS financing program totalling $1,973.0 million to be provided to 26 countries. As in fiscal year 1979, virtually all of the financing to be extended (except for a $500 million loan to Israel for which repayment is not required) would be provided by the Federal Financing Bank with repayment guaranties issued by the Department of Defense.

The Security Supporting Assistance (SSA) Program by which economic assistance is provided, on a loan and grant basis, to selected countries of special political and security interest to the United States. For fiscal year 1980, we are proposing an SSA program totalling $1,995.1 million, with about 40 percent of this amount being designated for Israel and about 45 percent for Egypt, Jordan, and Syria. This compares to a fiscal year 1979 program total of $1,921.4 million, of which $1,882.0 million was appropriated under the Economic Support Fund account and $27.4 million appropriated under the Peacekeeping Operations account.*

Foreign Military Sales purchases through which eligible foreign governments purchase defense articles and defense services, including training, from the United States Government. This Congressional Presentation Document includes data on actual fiscal year 1978 and estimated fiscal year 1979 and fiscal year 1980 Foreign Military Sales agreements.

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*The International Security Assistance Act of 1978 amended the Foreign Assistance Act of 1961 to eliminate SSA and to substitute the Economic Support Fund and Peacekeeping Operations accounts. The Administration proposes to return to a single SSA account in the fiscal year 1980 budget.

FY 1980 SECURITY ASSISTANCE PROGRAMS

(Dollars in Thousands)

Country	MAP (Grant)	IMETP (Grant)	FMS Financing	Security Supporting Assistance	Total
EAST ASIA & PACIFIC:					
Burma	-	31	-	-	31
Indonesia	940 a/	2,000	35,000	-	37,940
Korea	970 a/	1,800	225,000	-	227,770
Malaysia	-	305	7,000	-	7,305
Philippines	25,000	700	50,000	20,000	95,700
Taiwan	25 a/	-	-	-	25
Thailand	280 a/	900	25,000	-	26,180
Regional Total	27,215	5,736	342,000	20,000	394,951
NEAR EAST & SOUTH ASIA:					
Afghanistan	-	310	-	-	310
Bangladesh	-	140	-	-	140
Egypt	-	1,000	-	750,000	751,000
India	3 a/	500	-	-	503
Israel	-	-	1,000,000 b/	785,000	1,785,000
Jordan	30,000	1,300	90,000	60,000	181,300
Lebanon	-	500	32,500	-	33,000
Morocco	-	1,300	30,000	-	31,300
Nepal	-	27	-	-	27
Pakistan	-	600	-	-	600
Sri Lanka	-	25	-	-	25
Syria	-	-	-	60,000	60,000
Tunisia	10 a/	1,000	15,000	-	16,010
Yemen	-	600	-	-	600
Maqarin Dam Regional Project	-	-	-	38,000	38,000
Private Voluntary Agency Development Projects c/	-	-	-	3,000	3,000
Project Development and Support	-	-	-	1,000	1,000
Sinai Support Mission	-	-	-	12,100	12,100
Regional Total	30,013	7,302	1,167,500	1,709,100	2,913,915
EUROPE:					
Austria	-	25	-	-	25
Cyprus	-	-	-	2,000	2,000
Finland	-	40	-	-	40
Greece	748 a/	1,800	158,000	-	160,548
Portugal	30,000	2,200	-	50,000	82,200
Spain	3,800	2,000	120,000	7,000	132,800
Turkey	1,200 a/	2,000	200,000	98,000	301,200
Regional Total	35,748	8,065	478,000	157,000	678,013

FY 1980 SECURITY ASSISTANCE PROGRAMS (Continued)

(Dollars in Thousands)

Country	MAP (Grant)	IMETP (Grant)	FMS Financing	Security Supporting Assistance	Total
AFRICA:					
Botswana	-	80	500	16,000	16,580
Cameroon	-	50	2,000	-	2,050
Chad	-	120	-	-	120
Gabon	-	50	-	-	50
Ghana	-	220	-	-	220
Ivory Coast	-	30	-	-	30
Kenya	-	550	26,000	-	26,550
Lesotho	-	-	-	17,500	17,500
Liberia	-	230	1,400	-	1,530
Malawi	-	20	-	5,500	5,520
Mali	-	100	-	-	100
Mozambique	-	-	-	3,000	3,000
Rwanda	-	50	-	-	50
Senegal	-	220	-	-	220
Sudan	-	500	5,000	-	5,500
Swaziland	-	-	-	9,000	9,000
Togo	-	30	-	-	30
Upper Volta	-	100	-	-	100
Zaire	-	1,000	10,500	-	11,500
Zambia	-	-	-	31,000	31,000
Southern Africa Regional Requirement	-	-	-	18,000	18,000
Regional Total	-	3,350	45,400	100,000	148,750
AMERICAN REPUBLICS:					
Bahamas	-	60	-	-	60
Barbados	-	60	-	-	60
Bolivia	160 a/	450	5,500	-	6,110
Colombia	-	350	12,700	-	13,050
Dominican Republic	3 a/	250	300	-	553
Ecuador	-	352	3,300	-	3,652
El Salvador	3 a/	-	-	-	3
Guatemala	5 a/	250	-	-	255
Haiti	-	200	-	-	200
Honduras	2 a/	225	-	-	227
Mexico	-	150	-	-	150
Nicaragua	4 a/	-	-	-	4
Panama	6 a/	500	5,000	-	5,506
Paraguay	4 a/	-	-	-	4
Peru	-	400	3,300	-	3,700
Canal Zone Schools	-	4,400	-	-	4,400
Latin America Regional Program	-	800	-	-	[illegible]
Regional Total	187	8,447	31,100	-	[illegible]

FY 1980 SECURITY ASSISTANCE PROGRAMS (Continued)

(Dollars in Thousands)

Country	MAP (Grant)	IMETP (Grant)	FMS Financing	Security Supporting Assistance	Total
General Costs	51,437	a/	-	-	51,437
UN Forces in Cyprus	-	-	-	9,000	9,000
Non-Regional Total	51,437	-	-	9,000	60,437
Worldwide Total	144,600	32,900	2,063,000	1,995,100	4,235,600

NOTE: Totals may not add due to rounding.
a/ Supply Operations only.
b/ Payment waived on 50% of program amount.
c/ Titled West Bank/Gaza Development Activities in AID's CPD.
d/ General Costs for FY 1980 are included in country figures.
e/ Supply Operations only for delivery of previously MAP-funded materiel in the pipeline. The grant Military Assistance Program for Taiwan ended in FY 1976.

Foreign Military Sales Financing Program

Section 1 of the Arms Export Control Act, as amended, identifies one of the Act's purposes as authorizing sales of defense articles and defense services by the United States Government "to friendly countries having sufficient wealth to maintain and supply their own military forces at adequate strength, or to assume progressively larger shares of the costs thereof without undue burden to their economies, in accordance with the restraints and control measures specified herein and in furtherance of the security objectives of the United States . . ." Section 1 of the Arms Export Control Act, as amended, also recognizes that, because of the growing cost and complexity of defense equipment, "it is increasingly difficult and uneconomic for any country, particularly a developing country, to fill all of its legitimate defense requirements from its own design and production base". The Act further states that defense cooperation among the United States and allied governments is especially important, inasmuch as the effectiveness of U.S. and allied armed forces "to act in concert to deter or defeat aggression is directly related to the operational compatibility of their defense equipment."

Sections 23 and 24 of the Arms Export Control Act, as amended, authorize the President to help finance, by direct credits and repayment guaranties, the purchase of defense articles and defense services by friendly foreign governments and international organizations.

Credits and credit guaranties provide an effective means for easing the transition of foreign governments from grant aid to the cash purchase of needed defense articles and defense services from the U.S. Since the inception of our credit and guaranty programs 24 years ago, there have been a number of defaults. However, these are almost always due to temporary administrative misunderstandings on the part of foreign governments and not an unwillingness to pay.

For fiscal year 1980, authority is being requested to provide credits and guaranties totalling $2,063,000,000 to 25 allied and friendly foreign countries. About one-half of this total, or $1,000,000,000, is being requested for Israel including waiver of repayment for $500,000,000 of this amount. About 37 percent of the program funds requested is proposed for six countries where the United States maintains important military bases (Greece, Turkey, Spain, Philippines, Korea, and Panama). The remainder would be provided to 19 countries, varying from $90.0 million for Jordan to $300,000 for the Dominican Republic. All countries included in the request for fiscal year 1980 received FMS financing assistance in fiscal year 1979 except for Botswana which is included for the first time.

Obligational authority amounting to $656.3 million is being requested to carry out the Foreign Military Sales financing programs proposed in this document.

FOREIGN MILITARY SALES FINANCING PROGRAM

(Dollars in Thousands)

Country	Actual FY 1978	Estimated FY 1979	Proposed FY 1980
EAST ASIA & PACIFIC:			
Indonesia	40,000	32,000	35,000
Korea	275,000	225,000	225,000
Malaysia	16,500	7,500	7,000
Philippines	18,500	15,600	50,000
Taiwan	23,500	-	-
Thailand	29,500	30,000	25,000
Regional Total	403,000	310,100	342,000
NEAR EAST & SOUTH ASIA:			
Israel	1,000,000 a/	1,000,000 a/	1,000,000 a/
Jordan	71,000	67,000	90,000
Lebanon	-	42,500	32,500
Morocco	43,000	40,000	30,000
Tunisia	25,000	20,000	15,000
Regional Total	1,139,000	1,169,500	1,167,500
EUROPE:			
Greece	140,000	140,000	150,000
Spain	120,000	120,000	120,000
Turkey	175,000	175,000	200,000
Regional Total	435,000	435,000	470,000

Country	Actual FY 1978	Estimated FY 1979	Proposed FY 1980
AFRICA:			
Botswana	-	-	500
Cameroon	5,000	2,000	2,400
Gabon	2,000	-	-
Kenya	27,000	10,000	26,000
Liberia	500	1,200	1,400
Sudan	-	5,000	5,000
Zaire	17,500 b/	8,000 b/	10,500
Regional Total	52,000	26,200	46,400
AMERICAN REPUBLICS:			
Bolivia	-	6,000	5,500
Colombia	51,000	12,500	12,700
Dominican Republic	-	500	300
Ecuador	10,000	5,000	3,300
Haiti	500	200	-
Honduras	2,500	2,500	-
Panama	-	1,000	5,000
Peru	8,000	5,000	3,300
Regional Total	72,000	32,200	30,100
Worldwide Total	2,101,000	1,973,000	2,063,000

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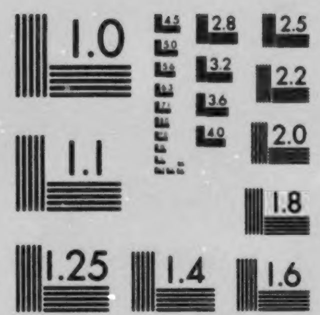
a/ Payment waived on 50% of program amount.
b/ Direct credit.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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

MILITARY ASSISTANCE PROGRAM

Through the Military Assistance Program (MAP), the United States provides defense articles and related services, other than training, on a grant basis to eligible countries. The number of such programs continues to be reduced as this program approaches a planned phaseout after FY 1981 unless there are exceptional circumstances. During fiscal year 1979, five countries are programmed to receive grant materiel assistance.

For fiscal year 1980, we are proposing a program totaling $144.6 million. These funds would be used to provide grant materiel assistance to four countries and to pay administrative costs of the program and the costs of delivering previously MAP-funded materiel in the pipeline to several countries.

Approximately 60 percent of the proposed military assistance program funds would be used to provide materiel to four recipient countries. Some 40 percent would be required for administrative and general costs, which would defray the salaries and related costs of U.S. personnel engaged in administering the security assistance program as required by section 515 of the Foreign Assistance Act of 1961, as amended, and packing, crating, handling and transportation of previously MAP-funded materiel.

MILITARY ASSISTANCE PROGRAM

(Dollars in Thousands)

Country	Actual FY 1978	Estimated FY 1979	Proposed FY 1980
EAST ASIA & PACIFIC:			
Indonesia	15,000	750 a/	940 a/
Korea	427 a/	970 a/	970 a/
Philippines	18,100	15,600	25,000
Taiwan	23 a/	26 a/	25 b/
Thailand	8,000	385 a/	280 a/
Regional Total	41,550	17,731	27,215
NEAR EAST & SOUTH ASIA:			
India	9 a/	4 a/	3 a/
Jordan	55,000	41,820	30,000
Tunisia	20 a/	10 a/	10 a/
Regional Total	55,026	41,834	30,013
EUROPE:			
Greece	33,000	32,525	748 a/
Portugal	25,000	25,930	30,000
EUROPE (Continued):			
Spain	15,000	41,000	3,800
Turkey	443 a/	2,500 a/	1,200 a/
Regional Total	73,443	101,955	35,748
AMERICAN REPUBLICS:			
Bolivia	123 a/	200 a/	160 a/
Dominican Republic	6 a/	6 a/	3 a/
El Salvador	25 a/	1 a/	3 a/
Guatemala	4 a/	6 a/	5 a/
Honduras	5 a/	4 a/	2 a/
Nicaragua	4 a/	11 a/	4 a/
Panama	15 a/	5 a/	6 a/
Paraguay	21 a/	8 a/	4 a/
Regional Total	205	241	187
General Costs	50,694	48,614	51,437
Worldwide Total	220,920	210,375	144,600

NOTE: Totals may not add due to rounding.

a/ Supply Operations only.

b/ Supply Operations only for delivery of previously MAP-funded materiel in pipeline. The grant Military Assistance Program for Taiwan ended in FY 1975.

EXCESS DEFENSE ARTICLES

This program is administered by the Department of Defense pursuant to the Foreign Assistance Act of 1961, as amended, which directs that defense articles no longer needed by U.S. Armed Forces shall be provided to meet grant aid requirements "wherever possible rather than providing such articles by the procurement of new items."

In determining which defense articles are excess, the following definition, from Section 644(g) of the Foreign Assistance Act, is applied:

> "Excess defense articles" means the quantities of defense articles owned by the United States Government, and not procured in anticipation of military assistance or sales requirements, or pursuant to a military assistance or sales order, which is in excess of the Approved Force Acquisition Objective and Approved Force Retention Stock of all Department of Defense Components at the time such articles are dropped from inventory by the supply agency for delivery to countries or international organizations * * *

To the extent feasible, Excess Defense Articles (EDA) are used instead of newly procured items or non-excess stocks to meet Military Assistance Program (MAP) grant aid requirements. These are articles which are no longer needed by the U.S. Armed Forces.

As items actually become available from excess, they are used first to meet MAP programmed requirements. They are used next to substitute for items programmed for MAP from new procurement or non-excess stocks. If not used to meet these programmed requirements, they are applied against requirements that have been validated as eligible for MAP grant aid. Articles which are no longer needed by U.S. Armed Forces are also sold under Foreign Military Sales procedures. The Arms Export Control Act limits the annual value of EDA that may be provided foreign governments by sale or grant.

The estimated worldwide totals for EDA programmed under grant aid in fiscal year 1979 and fiscal year 1980 are $1.4 million each.

MILITARY ASSISTANCE PROGRAM
EXCESS DEFENSE ARTICLES – ACQUISITION COST

(Dollars in Thousands)

Country	Undelivered FY 77 & Prior Years Program	Programmed FY 1978	Total	Delivered FY 1978
EAST ASIA & PACIFIC:				
Indonesia	6,044	-	6,044	183
Korea	8,937	-	8,937	972
Philippines	812	-	812	659
Taiwan	821	-	821	-
Thailand	3,283	-	3,283	1,162
Regional Total	19,898	-	19,898	2,977
NEAR EAST & SO. ASIA:				
India	2	-	2	-
Jordan	955	6	961	637
Regional Total	958	6	964	637
EUROPE:				
Portugal	92	16	108	92
Spain	673	-	673	86
Turkey	18,099	-	18,099	-
Regional Total	18,863	16	18,879	178
AMERICAN REPUBLICS:				
Bolivia	624	-	624	1
Dominican Republic	2	-	2	2
Honduras	70	-	70	1
Nicaragua	174	-	174	*
Panama	158	-	158	158
Paraguay	1,535	-	1,535	1,034
Uruguay	57	-	57	5
Regional Total	2,621	-	2,621	1,202
Worldwide Total	42,339	22	42,361	4,993

NOTE: Totals may not add due to rounding.
*Less than $500.

ESTIMATING FOREIGN MILITARY SALES

Basic foreign military sales policies are derived from U.S. statutes. Presidential policies, instructions from the Department of State, and Department of Defense directives which implement the provisions of these statutes, policies and instructions. Offers to sell defense articles and defense services (including training) under Foreign Military Sales (FMS) procedures are made only in response to specific requests from foreign governments. The estimates of foreign military sales for fiscal year 1979 and fiscal year 1980 included in the Congressional Presentation Document take account of the President's policy on conventional arms restraint, including that portion regarding a reduction in the dollar volume of new FMS commitments to non-exempt countries of weapons and weapons-related defense articles and defense services.

Projections of sales are made under conditions of extreme uncertainty. The projections are based on analyses of interest expressed by potential purchasers which may or may not result in official requests, judgments as to which requests may be approved and result in actual offers after the thorough and lengthy United States Government review process is completed, and a judgment as to which offers to sell may actually be accepted. The latter requires not only a judgment of how essential the military equipment is to the country's defense needs, but also an estimate of whether the purchase will be approved during the purchasing country's budget process. We have also included in our projections an estimate of potential requests for major increases in scope (amendments) to prior year cases. These amendments will be reflected as a sale in the current fiscal year. Each phase of the request/offer/acceptance process has many variables which make it difficult to be precise about the timing of many sales. The estimating period, however, is contrained to our fiscal year. A variance of one day in a purchasing country's acceptance of a single significant proffered sale agreement could shift the recording of the transaction from one fiscal year to the next.

For planning purposes, we have developed three estimates of foreign military sales. These estimates are based on varying degrees of probability of agreements, for the sale of defense articles and defense services, being signed with foreign governments. These estimates are termed "low", "most probable", and "high"; the "most probable" estimates are those contained in the following table. However, they are limited in value because in large part they represent decisions yet to be made by the United States and the prospective purchaser.

The "low" estimate for each country represents the minimum level of expected agreements. This resulted from a summation of those agreements already signed (in the case of early fiscal year 1979 only) plus an estimate of the purchasing country's continuing annual requirements to maintain equipment on hand or on order, major increases in scope (amendments) requests, plus those agreements almost certain to be signed. The "most probable" estimate represents the "low" estimate plus those additional agreements for the sale of defense articles and defense services which we reasonably expect to be signed during the fiscal year. This estimate represents our best collective judgment of probable agreements rather than merely a [illegible] forecast.

The "high" estimate is based on the "most probable" estimate, plus those additional agreements which we reasonably expect to consummate in response to anticipated purchasing country requests. The "high" estimate also includes those agreements which may not be accepted due to costs, realignment of purchasing country priorities, changes in purchasing country resource availability, acceptance of third country offers for similar equipment, or other reasons, including a negative decision by the U.S. Government during our review of the proposed sale. All estimates of potential FMS agreements to sell carry a high degree of uncertainty because of the lead time in making the estimate.

While an attempt has been made for individual countries to show that portion of estimated total FMS sales which may be financed by FMS credits and guaranteed loans, such estimates are tenuous at best. FMS financing is extended to specific countries on the basis of loan agreements which make specified amounts of funds available for the purchase of defense articles and defense services. The terms of the loan agreements require that the available funds be allocated to approved purchases (FMS or commercial) prior to a specified date, usually two years after the date the loan agreement is signed. When circumstances warrant, this period may be extended.

FMS agreements cannot always be segregated on a cash or financing basis at the time Letters of Offer are accepted by purchasing countries. In the case of those countries which have financing available, it is not always possible to determine until full payment has been made exactly how much of that payment was from funds available to the purchaser under FMS credits or guaranteed loans.

FOREIGN MILITARY SALES AGREEMENTS

(Dollars in Thousands)

Country	Actual FY 1978		Estimated FY 1979		Proposed FY 1980	
	Total Sales	FMS Financing Applied a/	Total Sales	FMS Financing Applied a/	Total Sales	FMS Financing Applied a/
EAST ASIA & PACIFIC:						
Australia	337,278	-	130,000	-	195,000	-
Burma	710	-	1,000	-	1,000	-
Indonesia	112,078	15,864	40,000	23,000	30,000	25,000
Japan	338,682	-	250,000	-	230,000	-
Korea	390,265	25,148	900,000	200,000	1,700,000	250,000
Malaysia	2,434	812	30,000	20,000	10,000	10,000
New Zealand	8,540	-	5,000	-	5,000	-
Philippines	33,250	-	50,000	20,000	90,000	20,000
Singapore	12,734	-	10,000	-	10,000	-
Taiwan	346,330	4,003	600,000 c/	-	380,000 d/	-
Thailand	111,600	21,455	290,000	30,000	130,000	32,000
Regional Total	1,693,981	67,282	2,306,000	293,000	2,681,000	337,000
NEAR EAST & SOUTH ASIA:						
Bahrain	0	-	10	-	10	-
Egypt	937,367	-	200,000	-	100,000	-
India	1,449	-	1,000	-	1,000	-
Iran	2,586,990	-	1,600,000 e/	-	1,900,000 e/	-
Israel	1,749,866	1,000,000	700,000	700,000	1,135,000	1,000,000
Jordan	93,378	14,837	140,000	85,000	120,000	75,000
Kuwait	87,004	-	30,000	-	10,000	-
Lebanon	28,038	27,762	40,000	40,000	30,000	30,000
Morocco	8,324	-	30,000	10,000	80,000	20,000
Oman	-	-	50	-	30	-
Pakistan	38,680	-	150,000	-	400,000	-
Qatar	-	-	-	-	19	-
Saudi Arabia b/	4,136,567	-	5,800,000	-	5,900,000	-
Sri Lanka	-	-	-	-	-	-
Tunisia	2,488	608	50,000	20,000	10,000	10,000
United Arab Emirates	309	-	3,000	-	3,000	-
Yemen	1,236	-	300,000	-	100,000	-
Regional Total	9,671,763	1,043,207	9,044,060	855,000	8,989,059	1,135,000
EUROPE:						
Austria	3,388	-	50,000	-	5,000	-
Belgium	13,716	-	25,000	-	25,000	
Denmark	18,021	-	35,000	-	19,000	-
Finland	2	-	1	-	1	-
France	4,942	-	5,000	-	5,000	-
Germany	430,105	-	400,000	-	325,000	-
Greece	127,094	1,130	250,000	50,000	100,000	50,000

FOREIGN MILITARY SALES AGREEMENTS (Continued)

(Dollars in Thousands)

Country	Actual FY 1978		Estimated FY 1979		Proposed FY 1980	
	Total Sales	FMS Financing Applied a/	Total Sales	FMS Financing Applied a/	Total Sales	FMS Financing Applied a/
EUROPE (Continued):						
Iceland	70	-	135	-	30	-
Ireland	85	-	100	-	100	-
Italy	6,275	-	10,000	-	10,000	-
Luxembourg	11	-	10	-	10	-
Netherlands	73,719	-	585,000	-	250,000	-
Norway	46,500	-	15,000	-	115,000	-
Portugal	669	-	2,000	-	2,000	-
Spain	191,829	50,831	190,000	85,000	400,000	100,000
Sweden	5,001	-	20,000	-	100,000	-
Switzerland	59,413	-	30,000	-	150,000	-
Turkey	171,494	170,716	175,000	175,000	180,000	137,500
United Kingdom	485,672	-	255,000	-	435,000	-
Yugoslavia	1,145	-	10,000	-	10,000	-
Regional Total	1,033,421	222,677	1,957,236	310,000	2,117,141	287,500
AFRICA:						
Botswana	-	-	*	-	500	500
Cameroon	1,923	1,923	3,000	2,000	3,000	2,000
Chad	-	-	*	-	*	-
Gabon	-	-	*	-	*	-
Ghana	-	-	100	-	100	-
Kenya	2,146	-	50,000	10,000	5,000	5,000
Liberia	27	19	*	-	*	-
Mali	-	-	*	-	*	-
Niger	-	-	*	-	*	-
Nigeria	9,510	-	10,000	-	10,000	-
Sudan	187,009	-	110,000	-	25,000	5,000
Zaire	21,668	20,784	15,000	15,000	10,000	10,000
Regional Total	222,283	22,726	188,100	27,000	53,600	22,500
AMERICAN REPUBLICS:						
Argentina	5,331	1,097	-	-	-	-
Bolivia	-	-	2,000	2,000	2,000	2,000
Brazil	16,541	-	-	-	-	-
Canada	100,830	-	200,000	-	85,000	-
Colombia	7,700	6,999	10,000	10,000	10,000	10,000
Costa Rica	*	*	250	*	200	-
Dominican Republic	-	*	1,000	1,000	1,000	1,000
Ecuador	20,295	9,471	20,000	10,000	15,000	10,000
El Salvador	46	-	1,000	1,000	-	-
Guatemala	2,749	-	2,000	1,000	1,500	1,000

FOREIGN MILITARY SALES AGREEMENTS (Continued)

(Dollars in Thousands)

Country	Actual FY 1978		Estimated FY 1979		Proposed FY 1980	
	Total Sales	FMS Financing Applied a/	Total Sales	FMS Financing Applied a/	Total Sales	FMS Financing Applied a/
AMERICAN REPUBLICS (Continued):						
Haiti	-	-	500	500	500	500
Honduras	871	344	1,000	1,000	1,000	1,000
Jamaica	3	-	5	-	-	-
Mexico	7,973	-	2,000	-	2,000	-
Nicaragua	11	-	-	-	-	-
Panama	136	35	1,000	1,000	1,000	1,000
Paraguay	46	-	10	10	*	-
Peru	13,083	6,271	10,000	6,000	10,000	10,000
Uruguay	111	-	1,000	1,000	-	-
Venezuela	4,059	-	10,000	-	10,000	-
Regional Total	101,772	24,217	261,766	36,110	139,200	36,500
NATO Organizations	130,313	-	324,000	-	19,000	-
Other International Organizations	858	-	1,000	-	1,000	-
International Organizations Total	131,171	-	325,000	-	20,000	-
Worldwide Total	13,534,500	1,380,109	13,962,161	1,520,110	14,000,000	1,810,500

NOTE: Totals may not add due to rounding.

* Less than $500.

a/ This shows the estimated amount of FMS financing applied to sales agreements entered into for the fiscal year. That amount may vary from the amount of FMS financing provided during the same fiscal year for the reasons given in the accompanying explanation.

b/ Includes $1,862 million (FY 1978), $2,800 million (FY 1979) and $3,000 million (FY 1980) of construction projects requested by the Government of Saudi Arabia.

c/ No new commitments on arms sales to Taiwan will be made in CY 1979, commitments made prior to December 31, 1978 will, however, be fulfilled.

d/ After December 31, 1979 the United States will continue to provide Taiwan access to selected defensive military equipment. The estimated figure shown, which is subject to revision, is the same as that used in the preparation of the FY 1980 budget.

e/ Subject to revision; estimates shown are the same as those used in the preparation of the FY 1980 budget.

COMMERCIAL EXPORTS LICENSED UNDER ARMS EXPORT CONTROL ACT

(Dollars in Thousands)

Country	Preliminary FY 1978	Estimated FY 1979	Estimated FY 1980
EAST ASIA & PACIFIC:			
Australia	20,383	32,500	32,500
Brunei	800	1,000	1,000
Burma	610	500	500
China	314	1,000	1,000
Fiji	1	-	-
French Polynesia (Fr)	10	-	-
Gilbert Islands (UK)	2	-	-
Hong Kong (UK)	12,130	13,000	13,000
Indonesia	2,914	5,000	5,000
Japan	117,57[illegible]	200,000	200,000
Korea	66,06[illegible]	90,000	90,000
Macao (Port)	4	-	-
Malaysia	61,023	70,000	70,000
New Caledonia (Fr)	103	100	100
New Zealand	4,166	6,000	6,000
Norfolk Island (Aust)	*	-	-
Papua - New Guinea	30	-	-
Philippines	6,539	20,000	20,000
Singapore	4,392	7,500	7,500
Solomon Islands	50	-	-
Taiwan	174,530	100,000	100,000
Thailand	8,480	10,000	10,000
Western Samoa	*	-	-
Regional Total	488,780	556,600	556,600
NEAR EAST & SOUTH ASIA			
Afghanistan	7	-	-
Algeria	5	-	-
Bahrain	126	1,000	1,000
Bangladesh	12	500	500
Egypt	6,340	10,000	10,000
India	9,716	10,000	10,000
Iran	130,757	155,000	155,000
Iraq	130	-	-
Israel	116,190	250,000	250,000
Jordan	7,100	10,000	10,000
Kuwait	1,898	5,000	5,000
Lebanon	1,322	1,500	1,500
Libya	247	-	-
NEAR EAST & SO. ASIA (Contd):			
Morocco	10,718	25,000	25,000
Nepal	7	-	-
Oman	1,405	2,000	2,000
Pakistan	6,403	10,000	10,000
Qatar	100	-	-
Saudi Arabia	98,223	65,000	65,000
Sri Lanka	*	-	-
Syria	300	-	-
Tunisia	279	2,500	2,500
United Arab Emirates	2,000	5,000	5,000
Yemen	2	-	-
Regional Total	353,671	552,500	552,500
EUROPE:			
Austria	3,163	2,200	2,200
Belgium	30,476	37,000	37,000
Cyprus	40	-	-
Denmark	13,726	20,225	20,225
Finland	660	4,000	4,000
France	43,106	62,500	62,500
Germany	120,494	132,000	147,000
Gibraltar (UK)	14	15	15
Greece	100,032	102,500	102,500
Iceland	11	30	30
Ireland	75	130	130
Italy	97,065	135,000	145,000
Liechtenstein	17	15	15
Luxembourg	104	15,100	20,100
Malta	22	-	-
Monaco	2	4	4
Netherlands	43,420	115,000	115,000
Norway	21,897	31,000	31,000
Portugal	2,705	3,000	3,000
Romania	4	-	-
Spain	27,217	40,000	45,000
Sweden	20,045	35,000	40,000
Switzerland	7,932	12,000	17,000
Turkey	8,812	20,050	20,050

COMMERCIAL EXPORTS LICENSED UNDER ARMS EXPORT CONTROL ACT (Continued)

(Dollars in Thousands)

Country	Preliminary FY 1978	Estimated FY 1979	Estimated FY 1980
EUROPE (Continued):			
United Kingdom	46,704	58,000	61,000
Yugoslavia	1,000	3,000	3,000
Regional Total	989,863	829,700	875,700
AFRICA:			
Botswana	25	*	*
Cameroon	2,838	3,000	3,000
Djibouti	*	*	*
Gabon	1	*	*
Gambia	1	*	*
Ghana	30	*	*
Guinea	2	*	*
Ivory Coast	10	*	*
Kenya	200	500	500
Lesotho	1	*	*
Liberia	23	1,200	1,000
Madagascar	1	*	*
Mauritius	10	*	*
Niger	125	22,000	*
Nigeria	4,421	7,500	7,503
Senegal	95	*	*
Seychelles	1	*	*
South Africa	4,870	*	*
Sudan	*	*	*
Swaziland	4	*	*
Tanzania	423	600	600
Zaire	937	2,000	2,000
Zambia	136	200	250
Regional Total	14,010	37,000	15,200
AMERICAN REPUBLICS:			
Antigua (UK)	2	2	2
Argentina	13,077	40,040	30,022
Bahamas	9	8	8
Barbados	5	5	5
Belize (UK)	10	12	12

Country	Preliminary FY 1978	Estimated FY 1979	Estimated FY 1980
AMERICAN REPUBLICS (Contd):			
Bermuda (UK)	13	20	20
Bolivia	702	800	600
Brazil	4,300	7,000	7,000
British Virgin Islands (UK)	1	2	2
Canada	a/	105,000	110,000
Cayman Islands (UK)	178	1	1
Colombia	2,307	5,000	5,000
Costa Rica	159	140	140
Dominican Republic	820	825	825
Ecuador	936	750	750
El Salvador	230	230	230
Falkland Island (UK)	*	*	*
French Guiana (Fr)	2	*	*
Greenland (Dm)	3	4	4
Grenada	1	2	2
Guadeloupe (Fr)	1	1	1
Guatemala	550	750	750
Guyana	3	5	5
Haiti	367	400	400
Honduras	1,094	500	900
Jamaica	144	200	200
Martinique (Fr)	3	2	2
Mexico	2,134	2,200	2,200
Neth Antilles (Neth)	13	13	13
Nicaragua	430	750	750
Panama	852	1,000	1,000
Paraguay	212	300	300
Peru	4,372	5,000	5,000
St. Lucia (UK)	2	2	2
Surinam	19	13	13
Trinidad-Tobago	95	50	50
Uruguay	67	230	230
Venezuela	5,544	8,000	8,000
Regional Total	38,902	188,266	179,239
Worldwide Total	1,404,874	2,160,134	2,179,307

NOTE: Totals may not add due to rounding.
* Less than $500.
a/ Data not available.

EXCERPT FROM THE ARMS EXPORT CONTROL ACT

a. The Arms Export Control Act

Public Law 90-629 [H.R. 15681], 82 Stat. 1320, approved October 22, 1968, as amended by Public Law 91-672 [H.R. 15628], 84 Stat. 2053, approved January 12, 1971; Public Law 92-226 [Foreign Assistance Act of 1971; S. 2819], 86 Stat. 20, 32, approved February 7, 1972; Public Law 93-189 [Foreign Assistance Act of 1973; S. 1443], 87 Stat. 714, 729, approved December 17, 1973; Public Law 93-559 [Foreign Assistance Act of 1974; S. 3394], 88 Stat. 1795, 1813, approved December 31, 1974; Public Law 94-329 [International Security Assistance and Arms Export Control Act of 1976; H.R. 13680], 90 Stat. 729, approved June 30, 1976; Public Law 95-92 [International Security Assistance Act of 1977, H.R. 6884], 91 Stat. 614, approved August 4, 1977; Public Law 95-105 [Foreign Relations Authorization Act, Fiscal Year 1978, H.R. 6689], 91 Stat. 844 at 846, approved August 17, 1977; and Public Law 95-384 [International Security Assistance Act of 1978; S. 3075], 92 Stat. 730, approved September 26, 1978.

AN ACT To consolidate and revise foreign assistance legislation relating to reimbursable military exports

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Arms Export Control Act".[1]

Chapter 1—FOREIGN AND NATIONAL SECURITY POLICY OBJECTIVES AND RESTRAINTS

SEC. 1.[2] THE NEED FOR INTERNATIONAL DEFENSE COOPERATION AND MILITARY EXPORT CONTROLS.—As declared by the Congress in the Arms Control and Disarmament Act, an ultimate goal of the United States continues to be a world which is free from the scourge of war and the dangers and burdens of armaments; in which the use of force has been subordinated to the rule of law; and in which international adjustments to a changing world are achieved peacefully. In furtherance of that goal, it remains the policy of the United States to encourage regional arms control and disarmament agreements and to discourage arms races.

The Congress recognizes, however, that the United States and other free and independent countries continue to have valid requirements for effective and mutually beneficial defense relationships in order to maintain and foster the environment of international peace and security essential to social, economic, and political progress. Because of the growing cost and complexity of defense equipment, it is increasingly difficult and uneconomic for any country, particularly a developing country, to fill all of its legitimate defense requirements from its own design and production base. The need for international defense cooperation among the United States and those friendly countries to which it is allied by mutual defense treaties is especially important, since the effectiveness of their armed forces to act in concert to deter or defeat aggression is directly related to the operational compatibility of their defense equipment.

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[1] The new title, "Arms Export Control Act", was added in lieu of "The Foreign Military Sales Act" by Sec. 201 of the International Security Assistance and Arms Export Control Act of 1976. Sec. 201 further stated that "any reference to the Foreign Military Sales Act shall be deemed to be a reference to the Arms Export Control Act."

[2] 22 USC 2751.

Accordingly, it remains the policy of the United States to facilitate the common defense by entering into international arrangments with friendly countries which further the objective of applying agreed resources of each country to programs and projects of cooperative exchange of data, research, development, production, procurement, and logistics support to achieve specific national defense requirements and objectives of mutual concern. To this end, this Act authorizes sales by the United States Government to friendly countries having sufficient wealth to maintain and equip their own military forces at adequate strength, or to assume progressively larger shares of the costs thereof, without undue burden to their economies, in accordance with the restraints and control measures specified herein and in furtherance of the security objectives of the United States and of the purposes and principles of the United Nations Charter.

It is the sense of the Congress that all such sales be approved only when they are consistent with the foreign policy interests of the United States, the purposes of the foreign assistance program of the United States as embodied in the Foreign Assistance Act of 1961,[3] as amended, the extent and character of the military requirement, and the economic and financial capability of the recipient country, with particular regard being given, where appropriate, to proper balance among such sales, grant military assistance, and economic assistance as well as to the impact of the sales on programs of social and economic development and on existing or incipient arms races.

It is further the sense of Congress that sales and guaranties under sections 21, 22, 23, and 24, shall not be approved where they would have the effect of arming military dictators who are denying the growth of fundamental rights or social progress[4] to their own people: *Provided*, That the President may waive this limitation when he determines it would be important to the security of the United States, and promptly so reports to the Speaker of the House of Representatives and the Committee on Foreign Relations in the Senate.

It shall be the policy of the United States to exert leadership in the world community to bring about arrangements for reducing the international trade in implements of war and to lessen the danger of outbreak of regional conflict and the burdens of armaments. United States programs for or procedures governing the export, sale, and grant of defense articles and defense services to foreign countries and international organizations shall be administered in a manner which will carry out this policy.

It is the sense of the Congress that the President should seek to initiate multilateral discussions for the purpose of reaching agreements among the principal arms suppliers and arms purchasers and other countries with respect to the control of the international trade in armaments. It is further the sense of Congress that the President should work actively with all nations to check and control the international sale and distribution of conventional weapons of death and destruction and to encourage regional arms control arrangements. In furtherance of this policy, the President should undertake a concerted effort to convene an international conference of major arms-supplying and arms-purchasing nations which shall consider measures to limit conventional arms transfers in the interest of international peace and stability.

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[3] For text, see page 1.

[4] Sec. 4 of Public Law 91-672 (Foreign Military Sales Act Amendments of 1971) substituted the words "denying the growth of fundamental rights or social progress" in lieu of "denying social progress".

It is the sense of the Congress that the aggregate value of defense articles and defense services—

(1) which are sold under section 21 or section 22 of this Act; or

(2) which are licensed or approved for export under section 38 of this Act to, for the use, or for benefit of the armed forces, police, intelligence, or other internal security forces of a foreign country or international organization under a commercial sales contract;

in any fiscal year should not exceed current levels.[5]

It is the sense of the Congress that the President maintain adherence to a policy of restraint in conventional arms transfers and that, in implementing this policy worldwide, a balanced approach should be taken and full regard given to the security interests of the United States in all regions of the world and that particular attention should be paid to controlling the flow of conventional arms to the nations of the developing world. To this end, the President is encouraged to continue discussions with other arms suppliers in order to restrain the flow of conventional arms to less developed countries.[6]

SEC. 2.[7] COORDINATION WITH FOREIGN POLICY.—(a) Nothing contained in this Act shall be construed to infringe upon the powers or functions of the Secretary of State.

(b) Under the direction of the President, the Secretary of State, taking into account other United States activities abroad, such as military assistance, economic assistance, and food for freedom, shall be responsible for the continuous supervision and general direction of sales and exports [8] under this Act, including, but not limited to, determining whether there shall be a sale to a country and the amount thereof, and whether there shall be delivery or other performance under such sale or export,[9] to the end that sales and exports [8] are integrated with other United States activities and the foreign policy of the United States is best served thereby.

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[5] Sec. 202(a) of the International Security Assistance and Arms Export Control Act of 1976 amended Sec. 1 by striking out the last paragraph and adding the language beginning with "It shall be the policy of the United States". The last paragraph of Sec. 1 formerly read as follows: "In order to reduce the role of the United States Government in the furnishing of defense articles and defense services to foreign countries and international organizations, and return such transactions to commercial channels, the United States Government shall reduce its sales, credit sales, and guaranties of such articles, and defense services as soon as, and to the maximum extent, practicable."

[6] This paragraph was added by Sec. 15(a) of the International Security Assistance Act of 1978 (92 Stat. 739). Sec. 15(b) of the same Act required a report from the President to the Congress by December 31, 1979 concerning the implications of the multilateral discussions referred to in the paragraph.

[7] 22 USC 2752.

[8] The words "and exports" were added by Sec. 212(a)(2) of the International Security Assistance and Arms Export Control Act of 1976.

[9] The words "and whether there shall be delivery or other performance under such sale or export," were added by Sec. 212(a)(2) of the International Security Assistance and Arms Export Control Act of 1976.

(c) The President shall prescribe appropriate procedures to assure coordination among representatives of the United States Government in each country, under the leadership of the Chief of the United States Diplomatic Mission. The Chief of the diplomatic mission shall make sure that recommendations of such representatives pertaining to sales are coordinated with political and economic considerations, and his comments shall accompany such recommendations if he so desires.

Sec. 3.[10] ELIGIBILITY.—(a) No defense article or defense service shall be sold by the United States Government under this Act to any country or international organization unless—

(1) the President finds that the furnishing of defense articles and defense services to such country or international organization will strengthen the security of the United States and promote world peace;

(2) the country or international organization shall have agreed not to transfer title to, or possession of, any defense article or related training or other defense service[11] so furnished to it to anyone not an officer, employee, or agent of that country or international organization and not to use or permit the use of such article or related training or other defense service[11] for purposes other than those for which furnished[12] unless the consent of the President has first been obtained;

(3)[13] the country or international organization shall have agreed that it will maintain the security of such article and will provide substantially the same degree of security protection afforded to such article by the United States Government; and

(4)[13] the country or international organization is otherwise eligible to purchase defense articles or defense services.

In considering a request for approval of any transfer of any weapon, weapons system, munitions, aircraft, military boat, military vessel, or other implement of war to another country, the President shall not give his consent under paragraph (2) to the transfer unless the United States itself would transfer the defense article under consideration to that country.[14] In addition, the President shall not give his consent under paragraph (2) to the transfer of any significant defense articles on the United States Munitions List unless the foreign country requesting consent to transfer agrees to demilitarize such defense articles prior to transfer, or the proposed recipient foreign country provides a commitment in writing to the United States Government that it will not transfer such defense articles, if not demilitarized, to any other foreign country or person without first obtaining the consent of the President.[15] The President shall promptly submit a report to the Speaker of the House of Representatives and to the Committee on Foreign Relations of the Senate on the implementation of each agreement entered into pursuant to clause (2) of this subsection.

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[10] 22 USC 2753.

[11] Sec. 203(a) of the International Security Assistance and Arms Export Control Act of 1976 added the words "or related training or other defense service".

[12] Sec. 25(2) of the FAAct of 1973 struck out "and" at the end of paragraph (2) and added the words to this point beginning with "and not to use or permit".

[13] Sec. 25(2)(B) of the FAAct of 1973 added paragraph (3) and redesignated former paragraph (3) as paragraph (4).

[14] Sec. 204(b)(1) of the International Security Assistance and Arms Export Control Act of 1976 amended Sec. 3 by striking out the following language after "country": ", and prior to the date he intends to give his consent to the transfer, the President notifies the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate in writing of each such intended consent, the justification for giving such consent, the defense article for which he intends to give his consent to be so transferred, and the foreign country to which that defense article is to be transferred".

[15] The words to this point, beginning with "In considering a request for approval" were added by Sec. 25(2)(C) of the FAAct of 1973.

(b)[16] * * * [Repealed—1977]

(c)(1)(A)[17] No credits (including participations in credits) may be issued and no guaranties may be extended for any foreign country under this Act as hereinafter provided, if such country uses defense articles or defense services furnished under this Act, or any predecessor Act, in substantial violation (either in terms of quantities or in terms of the gravity of the consequences regardless of the quantities involved) of any agreement entered into pursuant to any such Act (i) by using such articles or services for a purpose not authorized under section 4 or, if such agreement provides that such articles or services may only be used for purposes more limited than those authorized under section 4 for a purpose not authorized under such agreement; (ii) by transferring such articles or services to, or permitting any use of such articles or services by, anyone not an officer, employee, or agent of the recipient country without the consent of the President; or (iii) by failing to maintain the security of such articles or services.

(B) No cash sales or deliveries pursuant to previous sales may be made with respect to any foreign country under this Act as hereinafter provided, if such country uses defense articles or defense services furnished under this Act, or any predecessor Act, in substantial violation (either in terms of quantity or in terms of the gravity of the consequences regardless of the quantities involved) of any agreement entered into pursuant to any such Act by using such articles or services for a purpose not authorized under section 4 or, if such agreement provides that such articles or services may only be used for purposes more limited than those authorized under section 4, for a purpose not authorized under such agreement.

(2) The President shall report to the Congress promptly upon the receipt of information that a violation described in paragraph (1) of this subsection may have occurred.

(3)(A) A country shall be deemed to be ineligible under subparagraph (A) of paragraph (1) of this subsection, or both subparagraphs (A) and (B) of such paragraph in the case of a violation described in both such paragraphs, if the President so determines and so reports in writing to the Congress, or if the Congress so determines by joint resolution.

(B) Notwithstanding a determination by the President of ineligibility under subparagraph (B) of paragraph (1) of this subsection, cash sales and deliveries pursuant to previous sales may be made if the President certifies in writing to the Congress that a termination thereof would have significant adverse impact on United States security, unless the Congress adopts or has adopted a joint resolution pursuant to subparagraph (A) of this paragraph with respect to such ineligibility.

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[16] Subsection (b), as amended by Sec. 1 of Public Law 91-71, was repealed by Sec. 15 of the International Security Assistance Act of 1977 (91 Stat. 622). It had concerned U.S. military assistance to a country which had seized an American fishing vessel outside a twelve mile limit.

[17] Sec. 304(b)(1) of the International Security Assistance and Arms Export Control Act of 1976 amended Subsection (c), which formerly read as follows:

"(c) Except as otherwise provided in subsection (d), any foreign country which hereafter uses defense articles or defense services furnished such country under this Act, in substantial violation of any provision of this Act or any agreement entered into under this Act, shall be immediately ineligible for further cash sales, credits, or guarantees."

(4) A country shall remain ineligible in accordance with paragraph (1) of this subsection until such time as—

(A) the President determines that the violation has ceased; and

(B) the country concerned has given assurances satisfactory to the President that such violation will not recur.

(d)[18] (1)[19] The President may not give his consent under paragraph (2) of subsection (a) or under the third sentence of such subsection to a transfer of a defense article, or related training or other defense service, sold under this Act and may not give his consent to such a transfer under section 505(a)(1) or 505(a)(4) of the Foreign Assistance Act of 1961 unless[20] the President submits to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate a written certificaton with respect to such proposed transfer containing—

(A) the name of the country or international organization proposing to make such transfer,

(B) a description of the defense article or related training or other defense service proposed to be transferred, including the original acquisition cost of such defense article or related training or other defense service,

(C) the name of the proposed recipient of such defense article or related training or other defense service,

(D) the reasons for such proposed transfer, and

(E) the date on which such transfer is proposed to be made.

Any certification submitted to Congress pursuant to this subsection shall be unclassified, except that information regarding the dollar value and number of defense articles, or related training or other defense services, proposed to be transferred may be classified if public disclosure thereof would be clearly detrimental to the security of the United States.

(2)[19] Unless the President states in the certification submitted pursuant to this subsection that an emergency exists which requires that consent to the proposed transfer become effective immediately in the national security interests of the United States, such consent shall not become effective until 30 calendar days after the date of such submission and such consent shall become effective then only if the Congress does not adopt, within such 30-day period, a concurrent resolution disapproving the proposed transfer.

(3)[21] This subsection shall not apply—

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[18] Sec. 204(a) of the International Security Assistance and Arms Export Control Act of 1976 added Subsections (e) and (f). Sec. 304 (b)(2) of the same Act repealed Subsection (d) and redesignated Subsections (e) and (f) as (d) and (e). Previously, Subsection (d) read as follows:

"(d) A country shall remain ineligible in accordance with subsection (c) of this section until such time as the President determines that such violation has ceased, that the country concerned has given assurances satisfactory to the President that such violation will not recur, and that, if such violation involved the transfer of sophisticated weapons without the consent of the President, such weapons have been returned to the country concerned."

[19] Sec. 16 of the International Security Assistance Act of 1977 (91 Stat. 622) added the designation "(1)", redesignated paragraphs (1) through (5) as (A) through (E), and added a new paragraph (2).

[20] The words ", 30 days prior to giving such consent.", which previously appeared at this point, were struck out by Sec. 16(1) of the International Security Assistance Act of 1977 (91 Stat. 622).

[21] Paragraph (3) was added by Sec. 17 of the International Security Assistance Act of 1977 (91 Stat. 622).

(A) to transfers of maintenance, repair, or overhaul defense services, or of the repair parts or other defense articles used in furnishing such services, if the transfer will not result in any increase, relative to the original specifications, in the military capability of the defense articles and services to be maintained, repaired, or overhauled;

(B) to temporary transfers of defense articles for the sole purpose of receiving maintenance, repair, or overhaul; or

(C) to cooperative cross servicing arrangements among members of the North Atlantic Treaty Organization.

(e) If the President receives any information that a transfer of any defense article, or related training or other defense service, has been made without his consent as required under this section or under section 505 of the Foreign Assistance Act of 1961, he shall report such information immediately to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate.

(f)[32](1) Unless the President finds that the national security requires otherwise, he shall terminate all sales, credits, and guaranties under this Act to any government which aids or abets, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism. The President may not thereafter make or extend sales, credits, or guaranties to such government until the end of the one year period beginning on the date of such termination, except that if during its period of ineligibility for sales, credits, and guaranties pursuant to this section such government aids or abets, by granting sanctuary from prosecution to, any other individual or group which has committed an act of international terrorism, such government's period of ineligibility shall be extended for an additional year for each such individual or group.

(2) If the President finds that the national security justifies a continuation of sales credits, or guaranties to any government described in paragraph (1), he shall report such finding to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate.

SEC. 4.[33] PURPOSES FOR WHICH MILITARY SALES BY THE UNITED STATES ARE AUTHORIZED.—Defense articles and defense services shall be sold by the United States Government under this Act to friendly countries solely for internal security, for legitimate self-defense, to permit the recipient country to participate in regional or collective arrangements or measures consistent with the Charter of the United Nations, or otherwise to permit the recipient country to participate in collective measures requested by the United Nations for the purpose of maintaining or restoring international peace and security, or for the purpose of enabling foreign military forces in less developed friendly countries to construct public works and to engage in other activities helpful to the economic and social development of such friendly countries. It is the sense of the Congress that such foreign military forces should not be maintained or established solely for civic action activities and that such civic action activities not significantly detract from the capability of the military forces to perform their military missions and be coordinated with and form part of the total economic and social development effort: *Provided*, That none of the funds contained in this authorization shall be used to guarantee, or extend credit, or participate in an extension of credit in connection with any sale or sophisticated weapons systems, such as missile systems and jet aircraft for military purposes, to any underdeveloped country other than Greece, Turkey, Iran, Israel, the Republic of China, the Philippines, and Korea unless the President determines that such financing is important to the national security of the United States and reports within thirty days each such determination to the Congress.

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[32] Subsection (f) was added by Sec. 18 of the International Security Assistance Act of 1977 (91 Stat. 622).

[33] 22 USC 2754.

SEC. 5.[24] PROHIBITION AGAINST DISCRIMINATION.—(a) It is the policy of the United States that no sales should be made, and no credits (including participations in credits) or guaranties extended to or for any foreign country, the laws, regulations, official policies, or governmental practices of which prevent any United States person (as defined in section 7701(a)(30) of the Internal Revenue Code of 1954) from participating in the furnishing of defense articles or defense services under this Act on the basis of race, religion, national origin, or sex.

(b)(1) No agency performing functions under this Act shall, in employing or assigning personnel to participate in the performance of any such function, whether in the United States or abroad, take into account the exclusionary polices or practices of any foreign government where such policies or practices are based upon race, religion, national origin, or sex.

(2) Each contract entered into by any such agency for the performance of any function under this Act shall contain a provision to the effect that no person, partnership, corporation, or other entity performing functions pursuant to such contract, shall, in employing or assigning personnel to participate in the performance of any such function, whether in the United States or abroad, take into account the exclusionary policies or practices of any foreign government where such policies or practices are based upon race, religion, national origin, or sex.

(c) The President shall promptly transmit reports to the Speaker of the House of Representatives and the chairman of the Committee on Foreign Relations of the Senate concerning any instance in which any United States person (as defined in section 7701(a)(30) of the Internal Revenue Code of 1954) is prevented by a foreign government on the basis of race, religion, national origin, or sex, from participating in the performance of any sale or licensed transaction under this Act. Such reports shall include (1) a description of the facts and circumstances of any such discrimination, (2) the response thereto on the part of the United States or any agency or employee thereof, and (3) the result of such response, if any.

(d)(1) Upon the request of the Committee on Foreign Relations of the Senate or the Committee on International Relations of the House of Representatives, the President shall, within 60 days after receipt of such request, transmit to both such committees a statement, prepared with the assistance of the Assistant Secretary of State[25] for Human

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[24] 22 USC 2755. Sec. 5 was added by Sec. 302(b) of the International Security Assistance and Arms Export Control Act of 1976.

[25] Sec. 109(a)(6) of the Foreign Relations Authorization Act, Fiscal Year 1978 (91 Stat. 846) substituted the words "Assistant Secretary of State" in lieu of "Coordinator."

Rights and Humanitarian Affairs, with respect to the country designated in such request, setting forth—

(A) all the available information about the exclusionary policies or practices of the government of such country when such policies or practices are based upon race, religion, national origin or sex and prevent any such person from participating in the performance of any sale or licensed transaction under this Act;

(B) the response of the United States thereto and the results of such response;

(C) whether, in the opinion of the President, notwithstanding any such policies or practices—

(i) extraordinary circumstances exist which necessitate a continuation of such sale or licensed transaction, and, if so, a description of such circumstances and the extent to which such sale or licensed transaction should be continued (subject to such conditions as Congress may impose under this section), and

(ii) on all the facts it is in the national interest of the United States to continue such sale or licensed transaction; and

(D) such other information as such committee may request.

(2) In the event a statement with respect to a sale or licensed transaction is requested pursuant to paragraph (1) of this subsection but is not transmitted in accordance therewith within 60 days after receipt of such request, such sale or licensed transaction shall be suspended unless and until such statement is transmitted.

(3)(A) In the event a statement with respect to a sale or licensed transaction is transmitted under paragraph (1) of this subsection, the Congress may at any time thereafter adopt a joint resolution terminating or restricting such sale or licensed transaction.

(B) Any such resolution shall be considered in the Senate in accordance with the provisions of section 601(b) of the International Security Assistance and Arms Export Control Act of 1976.

(C) The term "certification", as used in section 601 of such Act, means, for the purposes of this paragraph, a statement transmitted under paragraph (1) of this subsection.

CONVENTIONAL ARMS TRANSFER POLICY *

(Statement by the President, February 1, 1978)

The United States Government, the executive branch and the Congress, are pledged to bring about a reduction in the trade in conventional arms. Last year, I promised to begin reducing U.S. arms sales as a necessary first step. I will continue that policy this year.

In the last fiscal year, the previous administration and my administration made sales commitments totaling many billions of dollars. While high, however, the total was considerably less than it would have been in the absence of new restraints we introduced, particularly in sales commitments to the developing countries of the world. Between January 20 and the close of the fiscal year, I approved and sent to Congress arms sales totaling $5.7 billion, which is less than half the total approved during the same period in 1976.

Today, I am announcing that arms transfer agreements covered by the ceiling which I have established will be reduced by $740 million in fiscal year 1978. This means that for the fiscal year which began on October 1, 1977, and which will end on September 30, 1978, new commitments under the Foreign Military Sales and Military Assistance programs for weapons and weapons-related items to all countries except NATO, Japan, Australia, and New Zealand will not exceed $8.6 billion. The comparable figure for fiscal year 1977 was $9.3 billion. This is a reduction of 8 percent, figured on constant fiscal year 1976 dollars.

A larger cut in the ceiling would violate commitments already made, including our historic interest in the security of the Middle East, and would ignore the continuing realities of world politics and risk the confidence and security of those nations with whom the United States has vital and shared foreign policy and security interests. A smaller reduction would neglect our responsibility to set an example of restraint that others might follow.

I intend to make further reductions in the next fiscal year. The extent of next year's reduction will depend upon the world political situation and upon the degree of cooperation and understanding of other nations.

I want to emphasize that the restraint policy I announced on May 19, 1977, was not aimed exclusively at the volume of arms transfers. Equally important is restraint in the sophistication of arms being transferred and on the spreading capability to produce armaments. Therefore, in addition to the ceiling, I established five specific controls applicable to all transfers except those to our NATO allies, Japan, Australia, and New Zealand. These controls included: (1) a control on the first introduction of certain advanced systems into an area; (2) a prohibition on advanced systems for export only; (3) a pro-

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*Weekly Compilation of Presidential Documents, v. 14, February 6, 1978: 256.

hibition on various types of coproduction arrangements; (4) tighter controls on retransfer; and (5) special controls on sales promotions.

These guidelines are at the heart of my decisions to approve or disapprove an arms transfer.

As I stated in my October 4 speech to the United Nations, genuine progress in this area will require multilateral efforts. But we are committed to taking the first steps alone to stop the spiral of increasing arms transfers. I call upon suppliers and recipients alike to join us in a determined effort to make the world a safer place in which to live.

UNITED STATES ARMS TRANSFER LEVELS [*]

(Statement by the President, November 29, 1978)

Conventional arms transfer restraint is an important objective of this administration and the Congress. To ensure U.S. leadership and to supplement existing legislation, I established for the first time a set of quantitative and qualitative standards by which arms transfer requests considered by this Government would be judged. The principal consideration in the application of those standards is whether the transfer in question promotes our security and the security of our close friends.

I am pleased to announce that this Government has kept its pledge to take the leadership in restraining arms sales. Under the ceiling I established, U.S. Government transfers of weapons and related items to countries other than NATO, Japan, Australia, and New Zealand, which totaled $8.54 billion in FY 1978, were reduced by 8 percent (or approximately $700 million measured in constant dollars) from the comparable FY 1977 level.

When I set this goal last year, I said that I would make further reductions in the next fiscal year. Today, I am announcing an additional cut of approximately $733 million[**] or 8 percent for FY 1979 measured in constant dollars. This means that for the fiscal year that began on October 1, 1978, and which will end on September 30, 1979, new commitments under the Foreign Military Sales (FMS) and Military Assistance (MAP) programs for weapons and weapons-related items to all countries except NATO, Japan, Australia, and New Zealand will not exceed $8.43 billion. This cut is consistent with our national security interests, including our historic interest in the security of the Middle East.

[In millions of dollars]

Fiscal year 1978 ceiling	$8,551
Inflation (7.2 percent)	+616
Fiscal year 1978 ceiling in fiscal year 1979 dollars	9,167
Policy reduction	−733
Fiscal year 1979 ceiling	8,434

When I addressed the United Nations General Assembly in October 1977, I emphasized that the United States had taken the first steps at conventional arms restraint, but that we could not go very far alone. Multilateral cooperation remains essential to the achievement of meaningful restraint measures. We continue to believe that all nations have an interest in restraining transfers of conventional weaponry which threaten the stability of various regions of the world and divert recipient resources from other worthy objectives without necessarily enhancing national security. We are making a maximum effort to achieve multilateral cooperation on the arms restraint issue.

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[*] Weekly Compilation of Presidential Documents, v. 14, December 4, 1978 : 2094–2095.

[**] FY 1979 Ceiling on Conventional Arms Transfers.

My decision on U.S. arms transfer levels for FY 1980 will depend on the degree of cooperation we receive in the coming year from other nations, particularly in the area of specific achievements and evidence of concrete progress on arms transfer restraint.

REPORT TO CONGRESS ON ARMS TRANSFER POLICY PURSUANT TO SECTIONS 202(b) AND 218 OF THE INTERNATIONAL SECURITY ASSISTANCE AND ARMS EXPORT CONTROL ACT OF 1976*

PART II. FINDINGS OF THE STUDY

INTRODUCTION

PROBLEM

The diversity of opinion about arms transfers [1] makes it impossible to devise a concise statement of the problem that will satisfy everyone. Some feel that the problem lies at the macro level—that arms sales worldwide are consuming scarce human and economic resources. Others see the problem as a regionally-bound short-term phenomenon that is already subsiding, although they recognize a need to guard against a recurrence. Some believe that arms transfers, particularly at current high levels, intensify the potential for and level of hostilities and diminish interest in peaceful resolution of conflict—that fundamental U.S. values and long-term interests, as well as the principles of the UN Charter, are at stake. Others look at arms transfers case by case and find that, on the whole, they respond to legitimate security needs and tend to have deterrent effect in local conflict situations—that the real problem is in pursuing political settlement of underlying disputes. Some are concerned that the volume and content of U.S. transfers have created larger appetites for weapons. Others feel that U.S. arms exports are being driven by the competitive policies of the other major suppliers and the superior quality of U.S. defense products. Some believe the greatest difficulty is a lack of clarity about the content of what is generally termed "arms transfers" and that categorization and explanation of the numbers will permit a more precise focus on the real problems. That so many different views are held with strong conviction demonstrates that the subject of arms transfers is not a single problem, but involves many questions. In spite of the disagreement about the nature of the problem, however, all tend to agree that there is a need not only for a clearer definition of purpose, but also for more control, coherence, and restraint in U.S. military exports, consistent with national security and foreign policy objectives.

A. TRENDS IN ARMS TRANSFERS

1. Composition of the Arms Trade

Although reliable data are difficult to obtain, conventional arms sales to developing countries, including OPEC, are estimated to have ranged from $15–$20 billion (in orders) annually in recent years. The United

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*Excerpts from U.S. President 1977– (Carter). Arms transfer policy; report to Congress. Washington. U.S. Govt. Print. Off., 1977. 107 p. (95th Congress 1st sess. Committee print.)

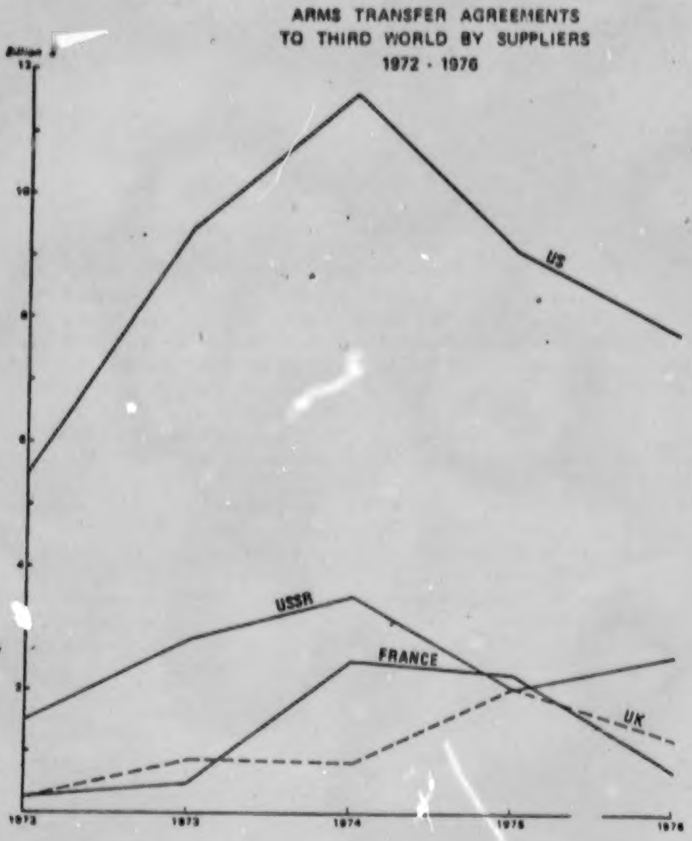
[1] Reference to "arms transfers," unless otherwise specified, include the following:

governmental transfers, whether by grant or sale, of goods and services to the armed forces of foreign countries;

international commercial transfers of articles designed, modified or adapted for military use (including components) and related technical data; and

international transfers, either through governmental or commercial channels, of data, know-how and technical assistance for the production of military equipment.

States has accounted for more than one-half this amount; the remaining amount is divided between communist (18 percent) and other non-communist (26 percent) suppliers. (See Figure 1.) These aggregate totals include a broad range of goods and services and a variety of political relationships between the supplying and the purchasing countries. A different picture emerges if we compare actual end items delivered. (Table 1.)



Source: CIA

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Figure 1

TABLE 1.—EXPORT OF MAJOR WEAPONS TO DEVELOPING REGIONS BY MAJOR SUPPLIERS, CUMULATIVE 1971–75

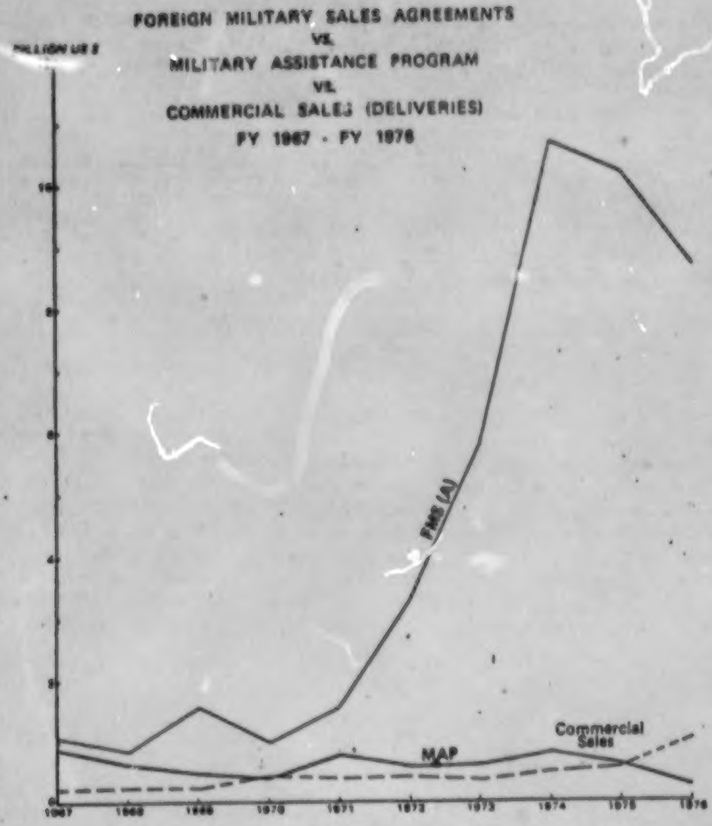
[Number of weapons]

Equipment type	Total	United States	Soviet Union	France	United Kingdom
Land armaments:					
Tanks and self-propelled guns	10,325	3,500	5,225	440	1,160
Artillery	3,420	785	2,550	80	5
Armored personnel carriers and armored cars	10,435	5,240	4,190	780	225
Naval craft:					
Major surface combatants	84	63	6		15
Minor surface combatants	232	87	35	32	78
Submarines	33	22	6	2	3
Guided missile patrol boats	37		33	4	
Aircraft:					
Combat aircraft, supersonic	2,753	563	1,915	275	
Combat aircraft, subsonic	743	460	180		106
Other aircraft	870	440	150	75	205
Helicopters	1,190	480	380	265	65
Missiles:					
Surface-to-air missiles	6,630	1,850	3,960	240	580
Air-to-air missiles	2,255	2,165		30	60
Air-to-surface missiles	6,260	6,030		230	

Source: World Military Expenditures and Arms Transfers, 1966–75, U.S. ACDA, table VI, p. 81.

The value of United States arms transfers is usually computed on the basis of new orders under the government-to-government Foreign Military Sales (FMS) program, plus military assistance grants (MAP) and licensed commercial exports of items on the United States Munitions List. (No statistics are available on new commercial orders.) FMS and MAP orders include all manner of goods and services sold or granted by the U.S. Government to foreign armed forces, including many items which are not on the U.S. Munitions List and, therefore, would not be considered arms if sold commercially.

FMS orders, which make up more than 85 percent of the value of total U.S. arms transfers, have for the past several years consisted of about 40 percent weapons and ammunition, 25 percent support equipment and spare parts, and 35 percent training, construction and other services. Commercial exports, which exceed $1 billion annually, also include a high percentage of support equipment, components and spare parts. Grants of military equipment, now approximately $200 million annually and expected to decline further, no longer constitute a significant part of U.S. arms transfers. (See Figure 2.)



Source: DOD FMS & Mil. Asst. Facts 275, 1976.

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FIGURE 2

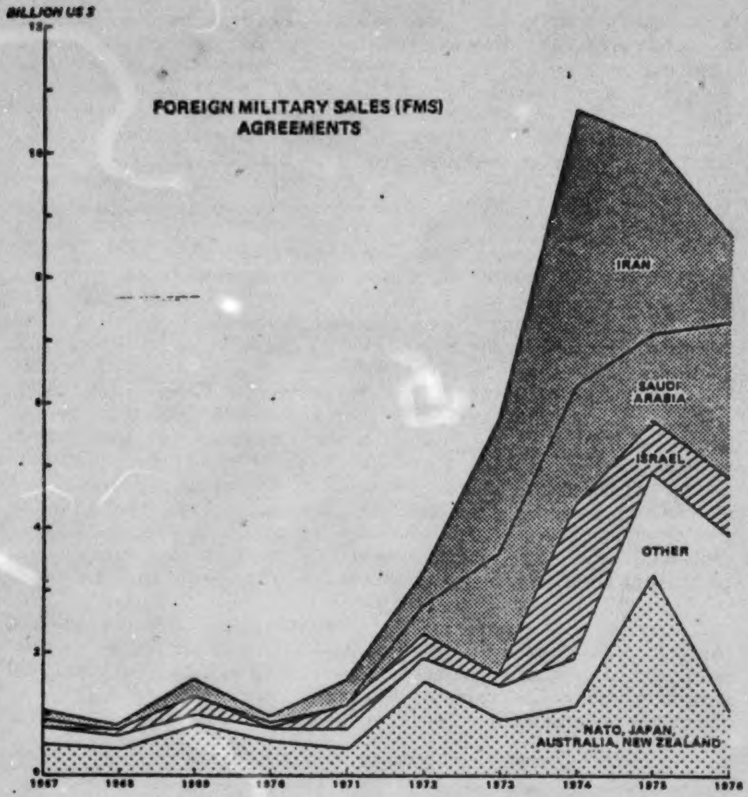
Sales agreements to other than close allies can be analyzed by differentiating the amount of arms and ammunition (e.g., fighter aircraft, bombers, destroyers, submarines, tanks, artillery, machine guns, rifles and missiles and all munitions and ammunition) from sales of noncombat equipment, spare parts or services. The sales of arms and certain support equipment (e.g., tanker aircraft) represent modernization or expansion of a country's combat capability; the other sales assure that items already in a country's inventory will remain operational (e.g., sales of most supporting equipment or spare parts), or develop infrastructure through sales of such items as construction, training, and technical assistance. To deny sales of weapons and ammunition is to deny an increase in combat capability and possibly cause a gradual diminution of current capability through obsolescence; to deny spare parts or supporting equipment is to cause a rapid decrease of current capability. Table 2 illustrates total U.S. sales agreements to other than treaty allies by category and region.

TABLE 2.—FISCAL YEAR 1976 SALES AGREEMENT DISTRIBUTION BY REGION

Area	Total sales agreements	Weapons and ammunition	Supporting equipment	Spare parts	Supporting services
Near East/South Asia	$5,700.4	$1,862.7	$472.2	$872.9	$2,527.5
Israel	(932.2)	(367.2)	(68.6)	(226.1)	(91.6)
Iran	(1,382.1)	(419.2)	(261.9)	(316.9)	([illegible])
Saudi Arabia	(2,482.6)	(247.0)	(278.9)	(82.7)	(1,[illegible])
East Asia	960.5	605.6	116.7	144.0	94.0
Korea	(621.5)	([illegible])	(82.7)	(108.3)	(44.7)
Europe	571.5	386.4	71.0	130.8	33.3
Latin American republics	77.8	13.9	18.9	19.6	25.2
Africa	214.2	80.5	48.2	48.5	36.6

2. *Identification of Recipients*

In seeking to identify opportunities for restraining international arms transfers, it is also important to recognize distinctions among purchasers. Figure 3 and Table 3 illustrate the regional distribution of FMS orders over the last ten years. Beginning in fiscal year 1971, there was a dramatic growth in the volume of FMS agreements. This trend peaked in fiscal year 1974 and fiscal year 1975, when large NATO orders for the F-16 aircraft coincided with large orders from Israel, Iran, and Saudi Arabia. The total volume declined somewhat in fiscal year 1976, a although Saudi Arabia's orders, and FMS agreements with "other" recipients (notably, Jordan and Korea) continued to grow.



SOURCE: 1976 Factbook

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TABLE 3.—FISCAL YEAR 1973-76 SALES AGREEMENT DISTRIBUTION BY REGION

	Fiscal year—			
	1973	1974	1975	1976
Total U.S. sales agreements	$5,766	$10,642	$10,123	$8,665
Near East/South Asia	4,366	8,863	6,076	5,705
Europe	808	1,107	3,054	1,044
East Asia	398	322	660	1,525
Latin American Republics	110	211	175	77
Canada	89	105	98	53
NATO and other international organizations	89	18	32	43
Africa	2	13	27	214
Number of countries signing sales agreements	65	69	71	68

As the foregoing charts and tables indicate, substantial sales are made to our NATO allies as part of our common defense effort. It has been our policy to encourage our NATO partners to increase their defense contributions in light of the continuing buildup of Warsaw Pact forces. Moreover, our interest in increased standardization and interoperability in NATO weapons systems and the possible development of more integrated European and NATO defense production and R. & D. capability, have led us to favor an expansion of arms transfers among NATO countries, beyond the rate of growth of overall arms expenditures.

An appropriate focus of attention would appear to be the Middle East, where the greatest expansion of arms exports has occurred. Iran, Saudi Arabia, and Israel together have accounted for more than half all FMS orders over the past five years. Sales to other developing countries, including OPEC, have been relatively modest. Although each area presents a different set of problems for policy application, it would appear that our immediate efforts in East Asia, Africa, and Latin America might be directed less at achieving significant reductions in the present dollar volume of arms transfers than at other aspects of the problem, such as the types of weapons transferred, while permitting modest moderization that can be demonstrated to contribute to regional stability and U.S. security interests. For the longer term, it must be kept in mind that, despite the concentration of sales volume in a relatively few countries, military expenditures absorb a measurable percentage of the gross national product of most countries.

A very few major sales can have dramatic effects. For example, the sharp increase in sales to Africa in 1976 is largely attributable to two sales of F–5 aircraft (to Kenya and Ethiopia). Approximately 20 percent of the dollar value of FMS sales each year is the result of one or two specific sales agreements as shown in Table 4.

TABLE 4.—SIGNIFICANT MAJOR TRANSFERS BY YEAR

Fiscal year and country	Description of sales	Value ($M)	Percent of total sales
1973—Iran	105 F–5E's, 36 F–4E's, 293 helicopters	$1,397	24
1974—Iran	2 destroyers, 80 F–14's	2,303	20
1975—Belgium, Denmark, Netherlands, Norway.	NATO consortium purchase of 348 F–16's	2,119	20
1976—Saudi Arabia	Operation of facilities and maintenance of F–5E's for a 3-yr period.	1,574	18

3. Implications of Changes in Supplier/Recipient Relations

Over the past thirty years, relationships between suppliers and recipients have undergone fundamental changes which have affected the volume, content and distribution of the international arms traffic.

> The commonality of purpose between supplier and recipient has diminished. Suppliers who once furnished arms primarily to close allies in order to meet a common threat now transfer arms to a diversity of recipients for a broadened range of foreign policy reasons, and more recipients acquire arms for national purposes of their own.
>
> Supplier participation in the planning of types and quantities of arms transferred has been made more complex as the mode

of transfers has shifted from grants to sales. Increased ability to pay, especially by the oil-producing nations, has contributed to a buyer's market in which economically independent recipients determine their own needs and sources of supply.

These changes in supplier/recipient relationships have been a factor in the trend toward increased sales of technologically advanced weapons to developing nations and the rise in total expenditures for arms transfers. New equipment almost invariably has a higher unit cost than the equipment it replaces. This higher cost includes a share of a newly developed system's research and development costs, which can often be substantial. In addition, as advanced equipment is obtained by countries which lack adequate numbers of technically competent personnel, a growing demand is created for foreign technicians to maintain the equipment and train local personnel in its operation. The costs of these foreign technicians constitute a significant part of many arms transfer cases.

4. The Role of Other Suppliers

With the rise in world demand for arms, Western European and Warsaw Pact countries have become keen competitors for sales. Arms sales are important to the defense production and economies of the United Kingdom and France in particular, and to the political purposes and hard currency needs of the Soviet Union. Smaller exporters such as Italy, Sweden, Israel, Spain, and Belgium are also acutely interested in the world market for arms. Domestic pressures are being felt in the FRG for a liberalized arms transfer policy.

Regionally, the Soviet Union is the dominant supplier in Africa and South Asia, a major supplier to the Middle East, and with Italy and the United Kingdom ranks ahead of the United States in sales to Latin America. The French and British are active in all regional markets.

The Soviet Union is the leading supplier worldwide of self-propelled guns, artillery, guided missile patrol boats, supersonic combat aircraft, and surface-to-air missiles. France has sold armored personnel carriers and armored cars, minor naval surface combatants, guided missile patrol boats, supersonic combat aircraft, and helicopters. The United Kingdom has been a large supplier of tanks and self-propelled guns, major and minor naval surface combatants, subsonic combat aircraft and other aircraft, and surface-to-air missiles.

Our ability to restrain international arms transfers will in many cases depend upon our ability to gain the cooperation of potential alternative suppliers. It will be most difficult to achieve the cooperation of the communist suppliers whose support for neighboring countries motivates increased arms acquisitions by some of the largest purchasers of U.S. arms.

5. Projected Deliveries and New Orders

Because months and years normally elapse before completion of deliveries under sales contracts, the rate of deliveries lags behind the level of new orders. There remains a U.S. backlog of more than $30 billion in articles and services (including $11 billion in weapons) under signed FMS contracts, some of which will not be delivered before 1982.

In addition, many of the major weapons systems we have sold (whether or not delivery has occurred) will not be of use to the purchasers unless we are also willing to provide ammunition, spare parts, maintenance, training and other follow-on support. Cancellation of existing contracts by the United States (which would have to pay substantial termination costs) or refusal to support items previously sold would understandably provoke sharp reactions from the purchasing countries.

Accordingly, it does not appear in the U.S. interest to influence the volume, content or distribution of transfers resulting either from the performance of existing contracts or from requirements for follow-on support. Rather, the best opportunities for achieving restraint are presented by review of new arms requests.

6. Future Trends

Preliminary data for 1976 indicate a gradual falling off of non-NATO demand for arms. From the 1974 peak of $21 billion, Third World procurements from all sources in 1975 dropped 20 percent, and in 1976 another 15 percent. The problem of absorbing large quantities of new equipment and technology on a sustained basis will continue to create administrative, training, and maintenance difficulties for the developing nations, thereby constraining new orders. (These difficulties, as in the past, may be partially overcome through the employment of foreign technicians.) Financial pressures may also continue to limit some purchasers. Unless major political, economic, or military developments upset this trend, the CIA projects that worldwide new orders may level off at $10–$15 billion annually by 1980.

Of course, all projections are subject to the basic fact that the level of arms acquisition is largely determined by recipients' perceptions of security needs and ability to pay. Political events contributing to a relaxation of global and regional tensions (e.g., an Arab-Israeli settlement) could have a profound effect upon the success of efforts to restrain arms transfers.

B. ARMS TRANSFER POLICY OBJECTIVES

1. The Purpose of Arms Transfers

The prevailing approach of the USG has been to use arms transfers as a major instrument of foreign policy, with the exception of special restraints in Latin America and Africa. There has been a general disposition in favor of approving proposed sales for the following purposes:

To support diplomatic efforts to resolve major regional conflicts by maintaining local balances and enhancing our access and influences vis-a-vis the parties;

To influence the political orientations of nations which control strategic resources;

To help maintain regional balances among nations important to us in order to avert war or political shifts away from us;

To enhance the quality and commonality of the capabilities of major Allies participating with us in joint defense arrangements;

To promote self-sufficiency in deterrence and defense as a stabilizing factor in itself and as a means of reducing the level and automaticity of possible American involvement;

To strengthen the internal security and stability of recipients;

To limit Soviet influence and maintain the balance in conventional arms;

To enhance our general access to and influence with governments and military elites whose political orientation counts for us on global or regional issues;

To provide leverage and influence with individual governments on specific issues of immediate concern to us;

To secure base rights, overseas facilities, and transit rights to support the deployment and operations of our forces and intelligence systems.

In sum, arms transfers have contributed to our national interests in a number of important ways. U.S. arms transfers have enabled friends and allies to defend themselves and deter aggression, have cemented good relations and enhanced our influence with recipients, and have denied hostile powers the opportunity to gain positions of influence in a number of Third World countries. These benefits, and the extent to which alternative instruments are available, must be taken into account in considering the appropriate role of arms transfers in our foreign policy so that our actions will be consistent with our national interests.

At the same time, although the objectives sought by the U.S. in its arms transfer policies have often been achieved, arms transfer programs have also entailed costs (i.e., implied commitments, extensive U.S. presence) and risks (arming countries whose policies and objectives may change radically and suddenly) that conflicted with other national objectives and values. There are genuine and understandable concerns over policies and activities which can be regarded as increasing the danger of military violence. Congress and this Administration have recognized the danger of supplying arms to countries the governments of which engage in practices violative of the human rights of their populations. The possible risks of arms transfers are, therefore, a concern of many and have directed attention to the merits of restraint.

2. Purposes of Restraint in Arms Transfer Policy

The President has indicated that our policy on arms transfers across the globe will be one of restraint: Our long-term interests will be better served if political stability and security can be maintained at a reduced level of armament.

Restraint in U.S. arms transfers can serve these purposes:

To encourage a general reduction in both world arms transfers and reliance on military might as an essential element in a more peaceful and stable world order;

Through a lower level of armament, to curtail the potential for arms races and limit the intensity of conflict if it occurs;

To reduce the potential and pressure for U.S. involvement in local conflicts to the extent this follows from various arms supply relationships;

To moderate super power competition and the prospect for conflict in regional situations (if multilateral initiatives are successful);

To reduce reliance on arms transfers as a means of implementing our diplomacy, to the detriment of alternative non-military instruments;

To protect U.S. military capabilities by limiting the dispersion of military technology that could be used against us and our Allies;

To distance ourselves from regimes that do not respect and observe basic human rights and fundamental freedoms;

To limit the diversion of monies and skills in developing nations away from fundamental economic development needs;

To permit U.S. resources to be shifted from financing arms transfers to supporting economic development;

To minimize the risk of diversion of destructive weapons to terrorists;

To build U.S. domestic support for our foreign policy objectives in the developing world.

As noted in the previous section there are costs and risks in a policy of unrestrained arms transfers. The same may be true of a policy of restraint. Some of the issues raised border on dilemmas where there are no easy or penalty-free solutions. The problem then is to design a policy that will meet the need for restraint, but at the same time preserve the adavntages that accrue from arms transfers. The potential impact and general effects of a policy of arms transfer restraint on our foreign relations, economic situation and defense posture are discussed in Annexes 1, 2, and 3.

C. POLICY ASSUMPTIONS

Against this background, the following assumptions were made:

The U.S. within the context of a policy of restraint, will continue to utilize arms transfers where necessary to promote our own strategic interests, the security of our allies and close friends, and world peace.

In particular, the U.S. will maintain its close defense relationships, with NATO members, Japan, Australia, and New Zealand.

The U.S. has special responsibilities to insure Israel's security in order to deter war and to make progress toward peace.

The U.S. will pursue multilateral initiatives with other suppliers in an effort to restrain the international trade in armaments.

Primary attention will be focused on new requests for the transfer of weapons, particularly systems of advanced technology. The U.S. will not normally be concerned with limiting routine sales of spare parts, training, construction and related services.

The U.S. will not cancel existing contracts. Goods and services will continue to be offered in support of the systems previously furnished, though management arrangements may be changed and the U.S. will reserve the right to determine appropriate quantities and timing.

D. MULTILATERAL CONTROLS

While a U.S. policy of restraint would reduce the content and value of future U.S. transfers, it might not affect the overall picture. Although the U.S. has a clear technical lead in most items and a greater variety of equipment to offer, there are other suppliers—the French, British, Israelis, Germans, Italians, Belgians, Soviets, and the Swedes—to whom determined purchasers might turn. We have no basis for precise judgments regarding the extent to which these suppliers could compensate for U.S. reductions, but most of them make some items of equipment and provide services which could be substituted. And eager buyers, if the best is not available, will be strongly inclined to take what is available.

The behavior of the Soviet Union is difficult to estimate. However, Defense reports the economic capability of the Soviet Union to increase its rate of production and exports of defense-related articles and services, particularly over a period of two to four years, could be substantial. The extent to which the Soviet Union would enter the market in places vacated by the U.S., and the extent to which others would seek out Soviet assistance, is uncertain. The Defense Department notes, however, that the Soviets are known to recognize and exploit new opportunities as part of their doctrine.

ACDA believs that the combined existing productive capacity of Western Europe and the communist bloc suppliers is generally adequate to substitute for all U.S. transfers to LDC's outside of the Middle East, and to substitute for U.S. fighter aircraft and naval vessel transfers to that region as well.

The prospect that other countries will voluntarily and spontaneously follow our model of restraint is unlikely. To the extent that we can begin to develop a consensus among other supplier and consumer nations about the need for restraint we can have a real impact on the worldwide situation. Our own program of restraint will be a very important first step toward this goal and will greatly enhance our ability to talk seriously with others about multilateral controls. Conversely, if we do not begin to enlist the cooperation of other suppliers and recipients, it will be difficult to sustain unilateral U.S. restraint over the longer term. If others begin to fill the vacuum we leave, the pressures in this country to loosen the bonds of restraint could become substantial. (See Annex 5 for a discussion of our recent experience with multilateral talks on arms transfers.)

The principles of our own program of restraint might form the basis for developing multilateral controls, perhaps somewhat similar to the concept of guidelines adopted by the nuclear suppliers conference. Rather than constituting an international agreement, as such, the nuclear suppliers' guidelines are a common set of principles adopted unilaterally by each supplier to govern the export of nuclear technologies. For conventional arms exports, such guidelines might include:

Exchange of information about the general market situation:

Listing of sensitive weapons systems on which suppliers would apply special restraint and the proposed transfer of which would trigger consultations;

Special restraint on transfers into regions of tension, which

would be interpreted for individual cases through consultation;
Controls on retransfers of goods and production know-how.

The wide variety of regional situations involving significant arms transfers suggests that a broad range of cooperative techniques will be required, involving both suppliers and recipients. Essentially, there are five means, none mutually exclusive, for developing multilateral controls of this sort:

(1) Bilateral consultations with suppliers and recipients, at U.S. initiative.

(2) A suppliers' conference, involving the small number of major suppliers. This would have to be accompanied by a series of bilaterals, particularly with the Soviet Union, as well as some means for working with recipients.

(3) International organization conferences, including both suppliers and recipients, in such force as the UNGA, UNSSOD, and CCD.

(4) Supplier-buyer conferences developed on a regional basis. This type of arrangement would focus the interpretation of general guidelines on the particular security needs and instabilities of a specific region.

(5) Recipient conferences. The development of multilateral approaches to this problem will be a long and complex process, to which there has been great resistance in the past. Although the shift in U.S. policy unilaterally will provide some momentum, particularly with other suppliers, the longer process will require the identification and implementation of restraints that serve the interests of both suppliers and recipients.

E. RELATIONS WITH CONGRESS

Congressional interest in arms transfers has grown with the rise in their volume and importance as an instrument of foreign policy, particularly in the Middle East. The key to gaining Congressional support is timely and thorough consultation, both in the formulation of new policies and in their execution. Effective consultation will require an effort by Congress to identify the appropriate Legislative Branch participants (we cannot consult with all members and staff). It will also require a conscientious effort by the Executive Branch to share information, to seek Congressional views before decisions are made, and to take those views into account.

The absence of a clearly understood arms transfer policy has contributed to widespread Congressional unease and lack of confidence in Executive Branch decision-making. This unease and lack of confidence have been manifested by Congressional efforts, through increasingly elaborate procedures, to become ever more directly involved in the making of operational decisions. Not the least of the explicitly expressed Congressional concerns, with which the Administration is in full agreement, is the need to curtail arms sales to governments which violate human rights and fundamental freedoms. The present Arms Export Control Act requires that hundreds of individual transactions each year be presented to Congress before contracts are signed or export licenses issued. This system buries Congress in the nuts and bolts of administration, rather than permitting it to focus on broad policy choices.

Apart from this basic problem, the laws presently governing arms transfers are extremely complicated, and are presently scattered among several Acts of Congress which are not entirely consistent in their requirements. A consolidated refinement and simplification of the law would benefit all concerned.

The continuing need for regular consultation with Congress at the early stages of decision-making on important issues cannot be overstated. Our dialogue with Congress concerning the form and content of arms transfers legislation should help to identify effective mechanisms for insuring such timely consultation.

PART III. POLICY ISSUES

The Policy Issues discussed in this Part form the framework for the decision on a new arms transfer policy. The issues are divided into four sets:

Set I. Restraints on Dollar Volume.
Set II. Restraints on Type.
Set III. Restraints on Destination.
Set IV. Restraints on Structure.

SET I. DOLLAR VOLUME RESTRAINTS

A. ACROSS-THE-BOARD CEILINGS

Issue

Should there be a fixed ceiling on the dollar volume of U.S. arms transfers?

Assessment

It is difficult to establish a firm estimate of the total dollar volume of arms transfers in fiscal year 1976 for the purposes of establishing a ceiling. One major uncertainty concerns the volume of commercial exports which represent more than 25 percent of the $12.4 billion total. The $3.5 billion commercial figure represents the dollar value of licenses issued in authorization of commercial exports during fiscal year 1976. Historically, commercial sales that finally are transacted have been equal to only about one-quarter of the amount that was licensed. On the basis of this historical experience, therefore, $12.4 billion tends to overstate the true volume of arms transfers ordered during fiscal year 1976. As noted below, however, a ceiling which included commercial sales may tend to increase the proportion of licenses that result in sales. It may, therefore, be desirable to consider a ceiling only on FMS orders, i.e., the larger and more important component of arms transfers.

The most severe ceiling would be a moratorium, (i.e., a ceiling set at zero for some period of time) on new orders. The President has explicitly rejected this concept and recently authorized selected arms sales.

A ceilings approach would tend to have several advantages and disadvantages, whatever the particular dollar level at which the ceiling was set. The advantages of a ceilings approach are:

Dollar ceilings are among the surest means to limit U.S. arms transfers;

Dollar ceilings, publicly announced, would send an unmistakable signal of this Administration's policy to domestic and foreign audiences;

Dollar ceilings, if applied in lieu of a combination of more selective controls, could provide a simplified decisionmaking process and, in some cases, allow greater Executive discretion;

Dollar ceilings would encourage more explicit consideration of trade-offs and priorities among recipient's requests for arms.

The disadvantages of a ceilings approach include the following:

Ceilings can be administered either on a first-come-first-served basis, or by explicitly assigning a share of the ceiling to each prospective recipient. Either approach presents serious management problems;

If ceilings were administered on a first-come-first-served basis, recipients would tend to place orders very early in the year while there remained "room" within the ceiling. The USG, however, would have strong incentives to defer decisions until late in the year when competing demands (among which trade-offs would be necessary) were better known;

If ceilings were administered on a quota basis, the USG would have to make explicit, and eventually public, distinctions among categories of recipients. For example, we might find ourselves forced to deny a sale to Korea in order to supply Jordan's needs;

If ceilings were administered on a quota basis, recipients would tend to utilize their full share of the ceiling each year to avoid risk of unmet demands in subsequent years, i.e., the arms transfer ceiling could become a floor;

Regardless of the basis on which the ceiling was administered, decisions on individual cases would tend to be made with respect to their impact on the ceiling in addition to (or at worst, rather than) on the merits of the case. The following consequences would ensue:

> Recipients could become uncertain about the reliability of the U.S. as a supplier and resentful if their requests were rejected for reasons unrelated to the merits of the particular case;
>
> Less expensive systems would become more attractive, even when they were less suitable;
>
> Competition among U.S. firms and, perhaps, their respective promotional activities could become more intense as they worked to ensure that their interests were accommodated within the ceiling.

Other suppliers are unlikely to join the U.S. in imposing a ceiling, at least in the short run. To the extent that they increased their sales to fill the buyers' residual demand that resulted from a U.S. ceiling, the effects of a U.S. ceiling on worldwide arms transfers would be attenuated;

Announcement of a ceiling, in combination with apprehensions that the ceiling could be lowered in subsequent years, might encourage buyers to place orders that otherwise would have been deferred. In brief, a ceiling could have the perverse effect of reversing the present forecast of declining arms sales over time;

A ceiling could increase the proportion of commercial licenses that resulted in exports, i.e., under some circumstances, a ceiling could increase the volume of arms transfers, especially commercial sales.

B1. CONTROL OF U.S. FINANCED PROGRAMS: MAP[1]

Issue

Our grant Military Assistance Programs (MAP) are now used primarily to support certain negotiations for base rights. The issue is whether there should be alternatives to MAP which would restrain arms transfers and yet be responsive to our political/military requirements and the needs of recipients.

Assessment

Owing in large part to Congressional criticism, MAP appropriations have been progressively reduced. Current MAP-funded arms transfers amount to less than three percent of all FMS transfers. Beginning in fiscal year 1978 all such programs are to end unless specifically authorized by Congress. We have proposed to reduce the number of grant material recipients next year to eight countries (Greece, Portugal, Spain, Turkey, Jordan, Indonesia, Philippines, and Thailand), with programs totaling $285 million.

Clearly, a reduction in MAP levels will have little impact on the total volume of our arms transfers. The key question is whether we should take the U.S. out of the business of giving arms away and shift from MAP to some other forms of quid for base rights. Paying rent for the use of facilities is the principal proposal for an alternative to MAP. It can be argued that to do so would be consonant with the overall purpose of reducing our role in the growth of arms transfers, and that it would be consistent with that purpose to put U.S. base rights in specific countries on the basis of a purely commercial arrangement, or other non-military forms of assistance. Shifting to the latter, however, would not assure that the recipients would diminish their acquisition of military equipment.

In opposition to the concept of substituting base rights rent for MAP it is argued that the rent will still be used by the recipient to buy arms, presumably from us. Further, approval of rent for one country may generate political demands for rent in other countries where no compensation is presently required. Currently, base rights are intended to provide security which is in the common interest of both the U.S. and host governments. Military aid provided in connection with such arrangements, it is argued, underscores this point.

B2. CONTROL OF U.S. FINANCED PROGRAMS

FMS Financing

Issue

There is concern that the levels of FMS financing programs are sometimes the result of political pressures which stimulate unnecessary arms acquisitions. The issue is whether and how to establish constraints on FMS financing to avoid such potential negative effects.

Assessment

As MAP has been phased down, the FMS financing program of credits and loan guarantees has grown to $2.2 billion in fiscal year

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[1] Training. In fiscal year 1978 training will amount to $36 million and is proposed for 45 countries.

1976, with almost half going to Israel. Levels of FMS financing to be offered to recipient countries now are frequently determined on the basis of political consequences (i.e., what signal would be perceived by an increase or decrease from the previous?). Sometimes the financing is offered without due regard to specific military requirements or precise knowledge of how it will be used. The terms provide that if the loan proceeds are not utilized within a specified time (e.g., two years), the funds are no longer available. Interest rates, based on the cost of money to the USG, are lower than available commercial rates, especially for most developing countries. It is possible that offers of loans on these attractive terms and with expiration dates on their availability are an inducement for some LDC's to order military equipment they might otherwise do without.

Eliminating FMS financing totally would deprive us of an instrument of foreign policy which there is no ready substitute. Tightening controls on FMS financing would be consistent with the overall objective of restraining arms transfers. However, FMS financing enables many recipients to respond to legitimate defense requirements which would otherwise not be met. It does, therefore, have utility in strengthening the defenses of countries politically important to the U.S. without resorting to MAP-type transfers.

SET II. RESTRAINTS ON TYPE

A. SENSITIVE WEAPONS

Issue

Certain weapons are considered sensitive from a political or a security point of view, because they are the subject of international negotiations regarding their use in combat, or of potentially great interest to terrorists, criminals or insurgents. This category—though impossible to define by any common set of parameters—is a particular focal point of the arms transfer problem. Should there be a public listing of sensitive weapons which the U.S. will not transfer to foreign countries unless a specific exception is approved by the President?

Assessment

The United States presently follows a set of informal guidelines whereby proposed transfers of certain types of weapons are subjected to special examination. These are:

Weapons that might fall into the hands of, and be of particular value to, terrorists, or insurgents (e.g., man portable air defense systems—Manpads—against civilian aircraft);

Weapons with a primary nuclear weapons delivery role;

Weapons, the misuse of which are particularly sensitive from a political, humanitarian, or diplomatic point of view (e.g., napalm, flamethrowers and certain incendiaries, fuel air explosives, cluster bombs);

Weapons that might associate the United States undesirably with the internal affairs of a foreign country (e.g., riot control weapons, equipment, and agents). None are sold through FMS procedures, but commercial licenses may be authorized.

The current informal guidelines serve to retard the export of these sensitive items, while allowing for flexibility in specific cases where there is a high degree of confidence that risks of diversion or misuse are outweighed by other considerations (e.g., the need for Manpads as a part of an effective NATO air defense). However, the absence of formality or publicity and the attendant flexibility of the present guidelines also cause them to be susceptible to political pressures in some cases. For example, the Redeye Manpad, initially prohibited for export because of its potential for use by terrorists against civilian aircraft, was subsequently approved for release to NATO, and certain other countries. Each exception tended to make further exceptions more difficult to avoid, though no Redeyes have been used by terrorists.

B1. LIMIT SIGNIFICANT NEW SYSTEMS

Issue

The transfer of advanced systems raises concerns about the compromise of new technology, destabilizing effects in the region involved, and the financial burdens involved for recipients. The issue is the extent we should restrain the transfer or production abroad of significant, newly-developed defense systems.

Assessment

The transfer of advanced systems raises serious concerns regarding the following four possible implications:

The compromise of advanced U.S. technology or classified data if the equipment falls into hostile hands, e.g., crypto equipment;

The development of countermeasures which might nullify the effectiveness of the equipment;

A destabilizing augmentation in the requestor's military capability;

The heavy financial burden on the recipient in meeting unforeseen acquisition or support costs.

As a general rule, we do not release systems still in R&D and we review carefully all requests for new systems. Nevertheless, in response to political and economic pressures or military requirements we have released important systems at an early stage, particularly to NATO, Israel, and Iran.

In the absence of precise and clearly understood guidelines as to what advanced systems we will and will not release, decisions are more susceptible to purchasing country or domestic manufacturer pressures.

B2. LIMITS ON NEW TECHNOLOGY EXPLICITLY DEVELOPED FOR EXPORT

Issue

Should the U.S. permit the sale abroad of systems which represent the most advanced U.S. weapons technology, but which are developed or modified especially for the foreign market?

Assessment

The U.S. has in the past developed systems exclusively to meet foreign needs (e.g., the F–5A), which have been very successful. The availability of the F–5A enabled foreign states to purchase a cheaper, less sophisticated aircraft than those in U.S. inventories. We would conceivably again wish to encourage the development of technology systems better adapted to foreign defense capabilities, but no such proposal is now under consideration. We are not here concerned with such relatively less sophisticated technology systems or modifications, but rather with modifications to, or development of, advanced systems solely for export.

Requests for the release of systems which have been developed or modified primarily for sale to friendly governments are handled in ways similar to systems destined for U.S. inventories.

Programs to develop new systems or make major modifications to U.S. systems for FMS customers carry greater financial risks for the U.S. than FMS transfer programs involving the sale of unmodified or only slightly modified systems. The FMS contractual arrangements for export-only programs require the same type of guarantees concerning validations of performance, establishment of development and procurement priorities, and quality control as do other FMS programs, despite the fact that these export systems are not in U.S. inventories and their development has not been monitored by the USG. Furthermore, the FMS contracts generally require us to facilitate logistics support, which is more difficult and costly when the system or some of its components are non-standard to the USG inventory.

C. RESTRAINTS ON DEFENSE EMPLOYMENT OF U.S. CITIZENS

Issue

Should we limit arms sales which require the employment of large numbers of U.S. citizens on defense projects abroad?

Assessment

Arms transfer recipients can presently expect that their absorption of U.S. equipment will be facilitated with the help of U.S. technicians for an indefinite period of time. This diminishes the effect that the inability of some recipients to absorb new equipment might have as a natural brake on arms acquisition. Some commentators warn that the presence of numbers of U.S. citizens in close connection with foreign military establishments could involve the U.S. in hostilities in which those countries became engaged. Whatever the merits of that assertion, it is clear that the U.S. would be forced in the event of regional hostilities to decide whether to evacuate Americans and thereby weaken a friend's defenses or leave them in place and endanger their safety. There is also the possibility that social, economic, and political frictions may in the future result from the presence of large numbers of U.S. citizens in Third World societies. Other observers believe that U.S. citizens could theoretically be held "hostage" if the policies of the host country suddenly diverged from those of the U.S. (These latter two points would also be true of Americans engaged in non-defense projects.)

We do not know to what extent other countries could provide technical advisors who would be competent to support equipment purchased from the U.S. It is unlikely, however, that the West European suppliers and other labor exporting countries could provide the number of trained technicians needed to support U.S.-origin equipment. In any event, use of third country technicians would pose the risk of compromise of U.S. technology. Thus, the likely recipient reaction to a restraint on U.S. technical support would be to switch to other suppliers for their defense equipment requirements.

Recent changes in U.S. tax law have made it less attractive for U.S. citizens to sell their technical skills abroad, and this development has already begun to restrain the numbers of U.S. citizens willing to work overseas. U.S. companies exporting military equipment and services in many cases will seek to compensate their employees for additional tax charges and then pass the cost along to the recipient countries. The increased costs of U.S. manpower will itself tend to restrain employment.

D. LIMITS ON COPRODUCTION [3]

Issues

The development of indigenous military industries is a priority objective of an increasing number of countries, particularly developing countries. Responding to requests for assistance in establishing production capabilities—often as a condition of a sale—is a growing policy issue for the U.S. There are two interrelated issues: Should the U.S. limit the number of significant coproduction agreements, and, if so, how might we restrict the proliferation of coproduced arms?

Assessment

Existing guidelines govern U.S.-financed coproduction agreements to all countries. More restrictive guidelines have been prepared, but not approved, for world-wide application. These guidelines incorporate the following considerations:

The mutual defense relationship between the recipient and the U.S.;

The success of present/past coproduction agreements with the recipients;

The military, technological, and economic significance of the venture, the need to export to sustain production, and the risk of compromise of design manufacturing process.

The arms control implications, particularly from sales to third countries.

Existing and proposed guidelines, however, are highly subjective, for they depend on judgments of what constitutes "significant" impact which may be influenced by the short-term bilateral political benefits to be gained by agreeing to a particular plan.

In the period 1957–1976, approximately 65 major coproduction projects were approved, about one-half of them in NATO countries. Significant projects have also been approved for Japan (Hawk, Nike, F-4, helicopters), Iran (TOW, Maverick, helicopters), South Korea (M-16, ammunition), and Taiwan (F-5E, helicopters), among others.

It seldom makes economic sense to coproduce a major weapon system—beyond the stage of assembly—solely for the local market. Nevertheless, recipient countries perceive various benefits—gain in technological skills and jobs, decrease in balance of payments problems, greater political and military self-sufficiency. These increase as the proportion of the weapon actually manufactured in the recipient country increases. Some major coproduction agreements are at least tacitly based on the recipient's desire to export for economic reasons.

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[3] Coproduction is used here to cover a range of transfers of design, development and production techniques both through government and commercial channels and including various combinations of the assembly and manufacture of components and entire weapons systems.

The general U.S. approach has been to prefer domestic production but to approve coproduction arrangements where U.S. interests are served. Prior U.S. approval is required before items can be transferred by recipients to third countries. This system has worked well with certain countries but we have different considerations with economically weak and developing countries which view exports as an imperative. They press for initial approval of broad sales territories—which are normally resisted—and object vigorously to requirements for prior written U.S. approval on a transaction basis. The effect of some coproduction arrangements, therefore, is to complicate the arms proliferation problem, to set the stage for increased bilateral friction and to reduce the overall ability of the U.S. to use arms transfers as an instrument of U.S. foreign policy. Nevertheless, it is in our interest to promote foreign self-sufficiency in production even for major systems—in certain situations.

SET III. RESTRAINTS ON DESTINATION

A. THIRD PARTY TRANSFERS

Issue

Third party transfers of defense articles and services in violation of agreements with the U.S. can result in the transfer of articles to countries which would not otherwise be provided U.S. equipment. The basic issue is whether U.S. control of third party transfers of defense articles and services needs to be improved.

Assessment

Existing law requires us to obtain from each MAP, FMS, or U.S. military training recipient an agreement not to transfer U.S.-furnished defense articles or services to any third party without prior USG consent. The law requires that a controlling factor in evaluating requests for transfer be whether the USG itself would be able as a matter of law, and willing as a matter of policy, to transfer the articles in question to the proposed recipient. We are required to report to Congress in cases where there is a substantial violation of the agreement. There is a presumption but not a requirement that all security assistance for serious violators will be terminated or suspended. Although not required by law, as a matter of policy identical requirements are applied to significant commercial sales. Other major suppliers also require prior approval for transfers of equipment they have provided.

In the past, the third party transfer mechanism has worked relatively smoothly, with only a few incidents of unauthorized transfers; i.e., Libyan F-5's to Turkey, Israeli Mysteres with U.S. engines to Honduras, and aged Iranian patrol boats to Sudan. With the quantity of U.S.-origin arms increasing around the world and old inventories being replaced (e.g., F-16's replacing F-5's or F-104's), however, it becomes harder to monitor foreign compliance either through military contracts or intelligence sources and the risk of unauthorized transfers increases substantially.

The effectiveness of any system of third party transfer controls is dependent upon the continued cooperation and good will of the recipient and its desire to maintain good relations with the United States and, more to the point, to retain the United States as a source of military supply.

Increased control over third party transfers and consistent application of termination or suspension may well be regarded as punitive and an infringement of sovereignty by receiving parties who have paid for the equipment or service. Our NATO allies have complained that U.S. requirements in this regard are so strict as to affect adversely NATO standardization. Further, in periods of tension or conflict, a recipient with a large volume of equipment might perceive its own political interests as more important than any undertaking with the USG regarding arms transfers, and proceed to supply U.S.-origin equipment to a neighbor in need-contrary to U.S. wishes.

B. ARMS TRANSFERS TO LOW INCOME LDCS

Issue

Weapons sales to low income LDC's have been criticized on the grounds that they add unduly to a heavy debt burden, overtax logistical and training systems, draw down skilled manpower reserves and contribute to instability. Should the U.S. place special restraints on arms transfers to LDC's to mitigate those effects?

Assessment

Many developing nations feel a pressing need for arms purchases to deal with perceived security threats or enhance prestige, and there is a general trend among LDC's toward the allocation of a greater proportion of GNP for defense. Requests by the poorer developing nations for an increased volume of more sophisticated arms have grown significantly in recent years, diverting resources needed for economic and humanitarian purposes. Given the strength of these duel imperatives, any significant reduction in U.S. military sales or assistance is likely to generate demands for greater access to international loans that could be used (directly or indirectly) to finance arms purchases from other sources.

The growth of LDC arms purchases has been coincidental with the shocks to the world's economic system from successive OPEC oil price hikes and the recent world recession. Development plans of many LDC's have been hard hit and some LDC's face serious debt problems as they attempt to close financial gaps by resorting to higher cost commercial borrowings. While arms purchases often impact directly on development plans, sales of training, civil action programs and low technology material in moderate amounts may confer some positive benefits for economic growth and political stability. We are not normally concerned with transfers of those defense goods and services.

Although our past reluctance to sell, particularly to the LDC's of Latin America and Africa, may have had some dampening effect on the build-up of arms, the primary result has probably been to divert demand to other suppliers, i.e., we are fourth among suppliers in Latin America and play a minor role in Africa. The overall situation suggests that: (1) we must exercise greater care in assessing the type and volume of weaponry, as well as its total cost to the economy, when we agree to sell arms to the developing countries; and, (2) a successful policy of restraining arms transfer to LDC's will depend heavily on the cooperation of other suppliers. Further discussion of this subject is contained at Annex 4.

C. HUMAN RIGHTS

Issue

How can arms transfer programs, as an instrument of foreign policy, be used to promote human rights? Should the United States terminate arms transfer programs in order to disassociate itself from regimes whose disregard for basic human values most offends international standards and American traditions?

Assessment

Although the weight given human rights considerations in U.S. arms transfer policy decisions has varied considerably and the absence of a systematic approach has led to inconsistent results, in recent months both the Congress and the Administration have placed increasing emphasis on this aspect of our foreign policy.

The President and the Congress have reaffirmed the U.S. commitment to promotion of human rights as a primary objective of U.S. foreign policy. Through selective reductions and terminations of security assistance programs both branches have on occasion acted to disassociate the United States from repressive governments. Disassociation, however, does not necessarily promote human rights, and a number of countries with deplorable records of human rights observance are also countries where we have important security and foreign policy interests.

Congressional interest has focused on the issue of security assistance (including cash sales) to offending countries, legislating a policy that sales, grants and loans be eliminated for countries engaged in a "consistent pattern of gross violations of internationally recognized human rights." The hard fact is that most nations of the world today enageg to some degree in repressive practices. Moreover, the conditions that tend to foster and perpetuate authoritarian rule may prove to be particularly intractable in countries which are subjected to economic stress. Hence, it is important to link arms transfer curtailments for human rights reasons to broadly gauged effort of diplomacy, education, and publicity.

In the formulation of arms transfer policy we can do much to change program content in light of human rights considerations. For example, U.S. arms that seem especially likely to be used for repression can be systematically denied and greater emphasis on human rights promotion can be included in orientation visits for foreign military officers. There are degrees of deprivation of security assistance which should be considered in imposing sanctions or disassociating the U.S. from repressive regimes.

There may be instances in which we conclude that the benefits of a defense cooperation relationship are outweighed by the disadvantages of U.S. identification with a particular repressive regime. In those cases, policy may dictate the severence of that relationship. However, widespread use of the blunt instruments of program termination and arms embargoes is likely to result in arms transfer cutoffs in geographic patterns involving small countries whose individual importance for our security interests may not be great, but whose collective importance may be.

There is risk of offending such countries, thereby incurring damage to our regional and global interests, particularly in the context of the North-South dialogue. Moreover, these countries might turn to other suppliers and their negative reactions could diminish what influence the U.S. might otherwise have been able to bring to bear to encourage improvements in their attitudes toward human rights. All these considerations suggest that complete termination of programs and arms embargoes might be best reserved for the worst offenders—in cases where we have concluded that efforts to improve the situation are unlikely to yield positive results and where continuation of programs unavoidably identifies the United States with governments with which we do not have common values.

In situations where continuation of arms transfers programs are most important to our national interest, we should make special efforts to encourage progress in human rights observance. Patterns of repression can erode the domestic support necessary to the stability of the governments we assist.

SET IV. RESTRAINTS ON STRUCTURE

A. CHANNEL ALL ARMS TRANSFER ACTIVITY THROUGH THE U.S. GOVERNMENT

Issue

Is it feasible and desirable to restrict all U.S. arms transfers to government-to-government transactions, in order to obtain comprehensive control?

Assessment

The dollar volume of commercial exports now amounts to 10 percent of FMS transaction, although the State Department approves about 23,000 licenses per year compared to 8,000 FMS cases annually. High dollar value items among commercial exports include spare parts for aircraft and military vehicles, electronic end items, ground support equipment for aircraft and missiles, small orders of transport aircraft, equipment in support of coproduction agreements, and avionics with both military and civilian application. States also processes thousands of applications for exports of sporting and hunting guns.

Many of the license applications are routine in nature and can be handled on the basis of established policies. All non-routine cases are reviewed in State, DOD, and ACDA in the same way as comparable FMS cases. Third party transfer requirements in commercial cases are analogous to those imposed by law in FMS cases, although the value of exports upon which they are imposed is less than under FMS.

Thus, to shift all commercial exports to FMS channels would not create significantly tighter controls over the existing review process nor change its character. The exclusive use of FMS would, at the same time, create a number of serious administrative and substantive problems. A shift to FMS for all cases would require DOD to establish additional accounting and procurement systems, particularly for the procurement and sale of items that were never in the U.S. inventory or are no longer in our inventories. The FMS system is designed for intergovernmental transactions, and it is questionable whether it would be appropriate for DOD to engage in the business of selling the whole range of Munitions List items with non-military application to foreign civilian entities, private as well as governmental. Moreover, many foreign governments, especially NATO nations, have purchasing missions in the U.S. which demand competitive bids before concluding a sales contract. DOD would not be in a position to service those requests without expanding its staff significantly.

Especially difficult problems would be created in the context of technical assistance and manufacturing license agreements involving foreign production, overhaul or maintenance of defense articles. These agreements are normally negotiated directly by U.S. firms and must be submitted to State and approved before they can enter into force. Often, there is a government-to-government agreement covering the commercial transaction. While a variety of options exists as to the extent we wish to approve foreign coproduction, shifting to FMS is likely to result in an unwieldy bureaucratic burden rather than greater governmental control. Also, FMS transactions are a two-party agreement which certain non-aligned nations would prefer to avoid because they see such agreements as connoting a political relationship.

B. DISINCENTIVES

Issue

There are varied opinions as to the effect which actions taken by the USG and by private firms might have in stimulating foreign requests to purchase U.S. defense items not justified by legitimate security needs. The issue is whether we can identify and eliminate incentives to arms transfers which are inconsistent with policy.

Assessment

In the mid-1960's it was the policy of the USG, within approved guidelines, to take certain FMS initiatives which were designed to support specified U.S. interests, e.g., to assist countries in making the transition from MAP to a position of self-sufficiency in their defense budgeting, or to support major NATO members in meeting their agreed NATO force goals. Beginning in 1969, policy was introduced that no DOD sales promotion activities could be undertaken without the prior approval of the ASD (ISA). More stringent controls on private industry and some revisions in internal USG procedures, could result in further reduction or elimination of those factors which some view as providing the incentive to stimulate foreign government interest in purchasing U.S. defense articles and services.

Commercial firms are most successful in promoting sales where USG guidance is permissive or susceptible to foreign or domestic political pressures. Private sales promoters also have a greater opportunity for sales stimulation when we delay making a decision on a prospective arms sale. Although there is no reasonable expectation that the activities of defense manufacturers will everywhere be congruent with U.S. policy, the opportunity for serious divergence can be minimized through U.S. arms policy guidelines that are clear, timely in application, firm, and are enforced by suitable regulation of promotional activities.

* * * * * * *

ANNEX 2. STUDY OF THE ECONOMIC EFFECTS OF RESTRAINT IN ARMS TRANSFERS [1]

PART I—EXECUTIVE SUMMARY

This study was undertaken in response to the Congressional requirement for an appraisal of the effects of arms export control provisions of Public Law 94–329 on the U.S. economy. The legislation specifically stressed the interest of the Congress in the effects of those measures on "(2) the balance of payments of the United States, (3) the trade with Foreign countries, (4) unemployment in the United States, and (5) weapons procurement by the Department of Defense."

CONDITIONS

Precise information is not available on the magnitude and composition of arms transfer restraint that has resulted and will result from enactment of the International Security Assistance and Arms Export Control Act of 1976. Deliveries from outstanding orders are likely to remain substantially unaltered irrespective of any change in policy, while the value (in constant prices) of new commitments in fiscal year 1978 is likely to be below the level attained in fiscal year 1977. The trend in future deliveries, and the impact of these transfers on the U.S. economy, are contingent on additional policy decisions and external conditions that cannot be known in advance.

ASSUMPTIONS

In the absence of precise information on the magnitude, composition and trends of actual future arms deliveries, it was decided to use three hypothetical levels of arms transfer orders and deliveries as a basis for evaluating some of the possible consequences of arms transfer restraint on the U.S. economy. In our attempt to evaluate those consequences we postulated three alternative policies entailing:

Constant annual arms sales equal to $8.5 billion (in fiscal year 1975 dollars);

Immediate cut of 40 percent in the volume of new orders;

An annual reduction of 10 percent in the volume of new orders from the previous year's level, spread over four years.

The results below are based on the use of several different types of economic models. Assumptions and input data used in various simulations could not be made identical. The results should be regarded as rough orders of magnitude, rather than precise estimates or projections. Other, equally plausible assumptions identified in the text would have yielded somewhat different results.

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[1] Prepared by the Department of the Treasury.

The policy of constant sales was used as a benchmark against which the economic effects of the remaining two policies were estimated for the period fiscal year 1977–83. We assumed that cutbacks in military sales are the only autonomous changes affecting the current account of the balance of payments. However, we assumed that 30 percent of funds unspent on U.S.-made arms by OAPEC countries will flow into the U.S. economy in the form of long-term investment thus alleviating the deterioration in the balance on current and long-term capital account. Being unable to project the flows of liquid funds into and out of the U.S., we made all projections under two alternative assumptions:

(*a*) That additional inflows of liquid funds will exactly match the said deterioration of the balance on current and long-term capital account, thus preventing the dollar from depreciating;

(*b*) That no additional inflows of liquid funds will take place, thus forcing the exchange rate of the dollar down by the amount necessary to equilibrate the current and long-term capital account.

Monetary and fiscal policies were assumed to be unaltered as a result of the policy change, even though such policies may be used to mitigate the output and employment effects of reduced arms sales.

MACROECONOMIC EFFECTS

Under assumption (a), the two more restrictive policies entail a drop of about 2 billion (in fiscal year 1972 dollars) in real GNP in fiscal year 1983, a decline in total employment and the index of capacity utilization of 0.1 percent, and an increase in the rate of unemployment by 0.1 percent. The current account would deteriorate by 5 billion dollars if a 40 percent cut in military sales were to be implemented immediately, and by 2.5 billion dollars if it were spread over 4 years.

Under assumption (b), the joint effect of that reduction and dollar depreciation would be neutral or mildly expansionary. The requisite depreciation of the dollar on a trade-weighted basis would be 2.1 percent under a policy entailing a 40 percent immediate reduction, and 1.0 percent if this reduction were to be implemented gradually over four years.

EFFECTS ON EMPLOYMENT IN SEPARATE INDUSTRIES, OCCUPATIONS AND REGIONS

The estimates of employment effects of changed policies affecting U.S. arms transfers abroad were made in terms of initial displacement of workers in the period fiscal year 1977–83.

An immediate 40 percent cut in the volume of orders for military exports would result in 132 thousand displaced workers while a gradual reduction in military exports would displace about 75 thousand workers in fiscal year 1983, but the aggregate impact on employment would be unevenly spread among industries, occupations and regions. Ordnance, aircraft, and communications equipment industries would suffer the strongest impact. Among occupational categories, the most severely affected would be "professional and technical jobs" accounting for 17.5 percent of all workers displaced.

Regional effects were generated by assuming that orders and cutbacks would follow the pattern of regional capacity distribution of each industry. The estimates of these effects must therefore be considered relatively unreliable both because of the limitations of the model and the lack of knowledge as to the precise location of actual orders and postulated cutbacks. A substantial research effort would be required to develop an appropriate regional model.

BUDGETARY EFFECTS

Budgetary savings to DOD generated by military exports arise mainly from partial recoupment of R. & D. expenditures and lower procurement costs. Under a constant sales policy those savings amount to about 800 million fiscal year 1975 dollars. In fiscal year 1983, the total loss in savings to DOD would reach $310 million if the 40 percent cut in military orders were implemented. It would exceed $180 million if the policy of gradual 10 percent a year reduction in sales were pursued.

* * * * * * *

ANNEX 3. IMPACT OF ARMS TRANSFER RESTRAINT ON OUR MILITARY POSTURE[1]

U.S. arms transfers are intended to serve U.S. national security objectives which, since the late 1960s, have been directed toward providing friends and allies with the means for self-defense, in part, to reduce the need for direct U.S. deployments. The same objectives, when correlated with military threats, also dictate U.S. force structure and deployment within existing budgetary constraints. Hence, current force structure, deployment, and the allocation of production assets are influenced by and linked to previous transfer agreements and follow-on support commitments. Given that relationship, it must be clearly recognized that foreign policy decisions intended to restrain arms transfers can, depending upon their focus, alter general readiness and procurement/production capabilities in several important respects:

> If transfers which meet valid military requirements are limited, some degree of compensating U.S. force augmentation may be required unless national security objectives are also modified.
>
> If transfers which do not directly support military policy are limited, impacts will be less severe. In such cases, the impact will depend upon whether those transfers enhance industrial preparedness or merely effect production economies unrelated to mobilization capability.

In either case, however, it should be recognized that the potential benefits of arms transfer restrictions, particularly if invoked unilaterally, cannot be obtained without some cost.

Restraints on arms transfers would affect U.S. military capabilities in three primary areas: (1) readiness, broadly defined; (2) production capabilities; and (3) weapons acquisition costs.

FORCE READINESS

The potential readiness benefits of individual arms transfer agreements include:

> Enhancement of allied and friendly force capabilities which support total force objectives and regional stabilization;
>
> Standardization/interoperability of allied equipment (i.e., NATO);
>
> Achievement of U.S. base rights and authorizations;
>
> Enhancement of common doctrine and combined operations among allies.

The potential costs of arms transfers to defense readiness include:

> Destabilization if transfers are perceived as upsetting a regional balance of forces;

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[1] Prepared by the Department of Defense.

Increased risk of compromise of advanced technology or classified material;

Deferral of U.S. inventory objectives for recently developed systems;

Reduction in current and future U.S. capabilities through transfers from inventory.

PRODUCTION READINESS AND COST ECONOMIES

Currently, readiness in terms of industrial preparedness is enhanced by maintaining an active production base, through foreign military sales, for defense materiel where domestic orders are insufficient to support continued production. As a result, the emergency surge capability of American industry is improved. The degree to which production readiness is enhanced and the magnitude of production economies achieved depends, however, on the timing and composition of the sales. There is only a loose relationship between production readiness and cost economies on the one hand, and the total dollar volume of transfers on the other. Maximum weapons acquisition cost savings occur when foreign orders complement the production sequencing and materiel requirements of U.S. forces. Whether such transfers also support primary military readiness goals depends upon the recipient's relationship with the U.S. as well as regional political factors. Further, some weapon systems currently are being produced almost exclusively to supply the international market. Other systems (e.g., F–5, the proposed f–18L) were designed specifically for sales overseas. Approximately 10–15 percent of the dollar volume of recent arms transfers represented weapons systems for which no additional U.S. procurement is planned. However, such capabilities enable unprogrammed U.S. requirements to be included within existing production runs at substantial savings to the U.S.G. in terms of start-up costs and leadtime.

Transfers to Industralized Recipients

Arms transfers to industralized recipients in NATO, Japan, Australia, and New Zealand normally enhance both force and production readiness and seldom arouse controversy. Such transfers account for approximately 10 to 20 percent of the total dollar volume of sales, for the most part composed of case sales of materiel that simultaneously is being produced to meet U.S. requirements. A reduction in U.S. arms transfers to the industrialized West would have significant disadvantages in terms of alliance readiness. Consequently, transfers to those nations should be substantially insulated from policies designed to restrain U.S. arms exports.

Transfers to LDC's

The military importance to the U.S. of LDC's varies widely. Within this category fall recipients of appropriated funds (MAP) which are of major importance to primary military objectives. Also included are OPEC states such as Iran and Saudi Arabia which, while serving regional security objectives, also provides the bulk of secondary cost benefits. Further, such states provide access to raw materiel which, over the long term, are of great importance to the West. However, reduction in arms transfers to LDC's is possible in some instances with little impact on U.S. readiness and limited negative effects on procurement.

ANNEX 4. IMPACT OF U.S. ARMS SALES ON ECONOMIC AND SOCIAL DEVELOPMENT OF RECIPIENTS*

Any evaluation of the impact of U.S. arms transfers on a developing economy must begin with a study of the effect on that economy of its total expenditures for defense. The acquisition of weapons is only a first step. That weapon—simple or complex—must be supplied with ancillary products it needs to function (POL, ammunition, spare parts, etc.); must be operated by trained personnel; must be supported by related equipment and by other systems involved in the strategy. The more complicated weapons systems draw considerably upon the resources of the nation for infrastructure (communications, roads, etc.); for management and technical skills; for the time and attention of leaders; and for the procurement locally of components produced internally (e.g., batteries, tools, transmitters, wiring, etc.).

Measurement of the impact on a society and on an economy of a country's defense effort is difficult. A valid and dependable formula for evaluating that impact, one that is equally applicable to all countries, has eluded the experts, both scholarly observers, as well as practitioners, within the United States Government and internationally. This is in part due to the fact that accurate data on foreign defense expenditures and military imports, their degree of sophistication and terms of trade are difficult to obtain, and because of understandable national sensitivities which impede detailed research. In addition, national income accounting and the elements of the defense component differ significantly between countries, as do tax policies which apply to defense expenditures and the per capita costs of maintaining a soldier.

Each country is unique. The circumstances that govern decisions on how the nation will divide its resources and establish its priorities are different. Each nation will determine what level of security is required as it is perceived. Short of complete dominance, no foreign government can persuade a sovereign nation to a course other than what it considers is in its interest—military and economic aid levels are of only marginal significance in the exertion of influence. Arms policy—either the encouragement of sales or their limitation by statute, probably has a greater practical effect but only to the extent there are not alternate sources of supply. Price differentials are not, up to a point, usually an inhibiting factor in defense decisions.

The question of the impact on economic and social development of military cost—whether it is positive or negative in the absolute sense—has not been resolved. In one of the most thorough studies of the subject, Emile Benoit stresses the complexities of trying to establish a causal relationship between defense expenditures and growth rates.

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*Prepared by the Agency for International Development.

FAVORABLE EFFECTS OF DEFENSE SPENDING ON GROWTH

After studying 44 less developed countries, Benoit found that accelerated defense efforts may stimulate growth.[3]

By the import of skills that also benefit civilian production and management;

By the provision of roads, airfields, communications networks built for military reasons but shared with civilians;

By production within the military sector of close substitutes for civilian goods and services (food, shelter, medical care) which reduce the burden on the civilian economy, permitting more investment;

By the modernization of attitudes, the opening up of minds to new management and technical ideas and the promotion of fuller use of resources.

In many countries, the military establishment, by virtue of the fact that it possesses the necessary capital and manpower resources, perform, on a continuing basis, services for the community which in other countries would be supplied by the civilian sector.

International Military Education and Training (IMET) under the United States Security Assistance program trains military officers from less developed countries in the United States not only in the arts of war but in modern management practices, the preparation and implementation of budgets, proper financial procedures, improved personnel methods and concern for troops under command. These officers return to become leaders in civilian as well as military life, inculcated with principles and skills that can make important contributions to many facets of a developing economy.

NEGATIVE EFFECTS OF DEFENSE SPENDING ON GROWTH

On the other hand, there is no doubt that if there were smaller defense programs and countries did put more of their resources into highly productive investments their growth rate would improve.

Income shift

The problem is that there is no guaranty that money not spent for defense will be well and productively used for the common good. It is unlikely that all of the resources previously earmarked for arms acquisitions would simply be channeled into productive civilian investment projects. More likely, these civilian investment projects would have to share some of the released resources with private and government consumption as well as with types of civilian investment which have limited growth effects, such as consumer durables.

The degree to which cuts in arms imports would actually lead to higher investment rates depends on such factors as the priority given by the government to the investment program and growth, the strength of pressures for higher consumption, the presence of feasible projects, the availability of foreign exchange, and a consensus on how to mobilize resources for economic and social progress.

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[3] *Defense and Economic Growth in Developing Countries* by Emile Benoit Lexington Books, L. C. Health & C., Lexington, Mass. 326 pp.

Productivity effect

In many cases, there is deterioration in productivity implicit in shifts from civilian to defense activity. There can be a loss of efficiency and productivity in the civilian sector when the central government assigns high priority to military production. Deprived of essential raw materials or processed ingredients completely in some cases, or the assurance of a continued supply in others, the incentive to develop regular industrial or commercial items of a nonmilitary nature to function at effective efficiency is substantially reduced. Inefficiency, breakdowns, wasteful use of manpower, energy, etc., are a result. This should be measured as a "cost" of defense.

The more expensive the weapons imports, the greater is the diversion of the recipient country's resources from other possible uses. For certain systems—especially such weapons as jet combat aircraft—the large number of technicians required full time to perform maintenance and repair functions may reduce a country's supply of skilled manpower for civilian purposes. Moreover, advanced systems are more likely to require the diversion of additional foreign exchange or capital resources in order to establish the necessary infrastructure support. It should be pointed out that for more developed country recipients—with existing transportation, communications, and power networks as well as large pools of skilled manpower—the necessity to provide additional infrastructure may often be avoided, and the diversion of skilled manpower is less likely to create shortages in the civilian sector. In the lesser developed nations, of course the obverse is true.

Investment effect

A rise in defense expenditure may divert to other uses resources that would otherwise have gone into investment. The resources may be preempted either directly by purchasing domestic construction or domestically produced equipment or stocks, or indirectly by using foreign exchange that would otherwise have been used to import such equipment or stocks, or to pay for imported construction and technical services, or for dividends, interest payments, or other remuneration required to motivate or finance an inflow of foreign investment. Moreover, since investment is the primary engine of growth, it is further assumed that this decline in investment will result in a lower growth rate in future, less houses, less food production, less educational and health benefits. That lower growth rate also carries with it the obverse of the secondary and tertiary benefits cited as an adjunct of military expenditure. Investment foregone means fewer jobs, less technical and managerial skills acquired, less incentive for institutional development.

The net effect

In the case of individual arms recipients, a mix of these positive and negative factors may be found. Whether the *net* effects of arms imports on a recipient country's economic development are positive or negative depends on the nature of that mix and the relative weights of the various factors. Although some of these factors can be measured with reasonable accuracy, others are less subject to reliable quantification, particularly those requiring that assumptions be made about the recipient's most likely behavior in the absence of existing acquisition programs. Hence, further systematic study of individual cases is necessary—particularly of the more subjective variables—before conclusions can be drawn with regard to the net effects of arms imports on recipient economies.

The dissatisfied less or least developed countries, through coalition, are exerting increased influence on the international political scene, affecting security balances now and with a greater potential for doing so in the future. They question economic aid unless it is to be accompanied by innovations in international trade policies and commodity pricing arrangements, and attention to their debt burdens. However, most are eager for military aid or sales for cash, willing to go further into debt and to face the rising costs of maintaining their weapons systems as POL prices soar. In the last ten years developing countries increased their military expenditures by 90 percent while the developed countries are spending about 23 percent more. Most countries, especially those in the Middle East, feel that a strong, well-equipped defense establishment gives them the confidence to make concessions in regional search for peace. This theory, which is also held by the U.S., is that the greatest contribution to peace is an invincible defense.

Abram Chayes of Harvard [3] sees the principal threats to world peace coming from the LDC's where volatile situations prevail and attitudes are hardening. "Millions of people are moving from peasant and tribal villages, where some kind of subsistence and the supports of a traditional society were available, to cities both economically and socially unprepared to receive them. Without jobs, homes or food, in city after city the newcomers become a turbulent, uprooted and increasingly desperate mass." Rising terrorism; Middle East tensions; internal struggles and border disputes in Africa; the Southern Africa political dilemma; these situations are creating the instability that leads to escalating arms sales.

Countries will secure the defense they think necessary no matter from where it comes or how much it costs. The problem the world faces is of far greater magnitude than U.S. arms policies. Military efforts are not an unalloyed curse or blessing; LDC resources should go for optimum social advantage; and defense budgets should receive the minimum amounts needed for realistic defense requirements. But achievement of such balances can only come when each country develops its own rationale that money spent for economic and social growth contributes as much to its security as does money invested in arms.

The steps that the United States might take in the area of Arms Sales Policies to ease world tension are presented elsewhere. Steps that might be taken in other but related fields might include:

> Increased knowledge of the true costs of defense. Through research, develop a more sophisticated and accurate means of measuring how much a society actually pays for its defense establishment, both direct and indirect in real terms, including foregone opportunities, less efficient civilian productivity, etc.
>
> There should be a more knowlegdeable look at the knds of defense programs the United States is supporting in recipient countries. It may be possible to advocate defense priorities which

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[3] "Nuclear Arms Control After the Cold War," Analysis—Journal of American Academy of Arts & Sciences, Summer 1975.

would reduce foreign exchange costs and the burden placed on domestic manpower and industrial resources and at the same time increase civic action infrastructure and other benefits.

The interrelationship between all forms of U.S. resource transfers is direct. The extent of the defense cost deriving from a U.S. arms transfer, through aid or sale, affects the country's performance in economic and social growth. Development or other forms of economic aid—even through international channels—can seldom help achieve the ultimate goal of selfsustaining growth without complementary international trade and monetary policies. The United States should program all of its resources transferred to one country in a unified manner, ensuring that each component is compatible with the other.

World Military Expenditures and Arms Transfers 1979* (excerpts)

TABLE III. Arms Transfers and Total Imports and Exports by Group and Region by Year

YEAR	ARMS IMPORTS Million dollars		ARMS EXPORTS Million dollars		TOTAL IMPORTS Billion dollars		TOTAL EXPORTS Billion dollars		ARMS IMPORTS / TOTAL IMPORTS	ARMS EXPORTS / TOTAL EXPORTS
	Current	Constant**	Current	Constant**	Current	Constant**	Current	Constant**	%	%
WORLD TOTALS										
1968	5310	8570	5310	8570	247	399	239	386	2.2	2.2
1969	5850	9000	5850	8990	281	431	272	419	2.1	2.2
1970	5850	8550	5860	8560	321	469	312	456	1.8	1.9
1971	6350	8820	6350	8830	359	499	348	484	1.8	1.8
1972	9880	13200	9870	13200	423	565	412	551	2.3	2.4
1973	13400	16900	13500	17000	581	734	572	722	2.3	2.4
1974	12200	14100	12200	14100	871	1010	862	994	1.4	1.4
1975	12300	13000	12400	13000	930	980	905	953	1.3	1.4
1976	15600	15600	15600	15600	1040	1040	1020	1020	1.5	1.5
1977	17500	16600	17500	16600	1130	1070	1110	1050	1.6	1.6
DEVELOPED										
1968	1691	2730	5117	8261	194	314	191	308	0.9	2.7
1969	1973	3033	5680	8730	222	341	218	336	0.9	2.6
1970	1717	2510	5626	8223	254	371	251	367	0.7	2.2
1971	1673	2327	6070	8441	284	395	280	389	0.6	2.2
1972	2584	3451	9344	12480	338	451	332	443	0.8	2.8

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*To be published in the summer of 1979 by the U.S. Arms Control and Disarmament Agency. The volume will include a discussion of highlights data limitations, and statistical procedures, and additional tables on military expenditures and various economic and social indicators. Copies may be obtained from U.S. ACDA, Washington, D.C. 20451.

**Constant dollars are based on 1975.

TABLE III. Arms Transfers and Total Imports and Exports by Group and Region by Year—Continued

YEAR	ARMS IMPORTS Million dollars		ARMS EXPORTS Million dollars		TOTAL IMPORTS Billion dollars		TOTAL EXPORTS Billion dollars		ARMS IMPORTS / TOTAL IMPORTS	ARMS EXPORTS / TOTAL EXPORTS
	Current	Constant**	Current	Constant**	Current	Constant**	Current	Constant**	%	%
1973	3543	4476	13089	16537	462	584	453	572	0.8	2.9
1974	3603	4159	11843	13671	673	776	626	722	0.5	1.9
1975	3539	3728	11780	12410	704	741	679	716	0.5	1.7
1976	4279	4279	14737	14737	800	800	752	752	0.5	2.0
1977	3916	3712	16886	16006	859	814	815	773	0.5	2.1
DEVELOPING										
1968	3616	5838	193	312	53	86	48	78	6.8	0.4
1969	3880	5964	171	263	59	90	54	83	6.6	0.3
1970	4131	6038	230	336	67	98	61	89	6.2	0.4
1971	4672	6497	280	389	75	104	68	95	6.2	0.4
1972	7292	9739	521	696	85	114	80	107	8.6	0.6
1973	9853	12448	393	497	119	150	119	151	8.3	0.3
1974	8626	9958	373	431	198	229	236	272	4.4	0.2
1975	8805	9276	582	613	227	239	225	238	3.9	0.3
1976	11293	11293	846	846	236	236	268	268	4.8	0.3
1977	13616	12906	656	622	270	256	292	277	5.0	0.2

AFRICA											
1968	123	199	0	0	11	17	13	21	1.2	0
1969	144	221	2	3	12	18	14	22	1.2	0.0
1970	231	338	0	0	14	20	16	23	1.7	0
1971	277	385	1	1	16	23	17	23	1.7	0.0
1972	453	605	8	11	17	22	18	24	2.7	0.0
1973	493	623	6	8	22	28	26	33	2.3	0.0
1974	634	732	6	7	64	74	78	90	1.0	0.0
1975	1234	1300	7	7	83	87	79	83	1.5	0.0
1976	2310	2310	10	10	86	86	91	91	2.7	0.0
1977	2901	2750	64	61	54	51	59	56	5.4	0.1
EAST ASIA										
1968	2079	3356	148	239	24	39	22	35	8.6	0.7
1969	2094	3219	155	238	28	43	26	40	7.5	0.6
1970	1911	2793	216	316	33	49	30	44	5.7	0.7
1971	2107	2930	255	355	36	50	37	51	5.9	0.7
1972	3483	4652	463	618	43	57	45	60	8.2	1.0
1973	4209	5318	311	393	68	85	64	80	6.2	0.5
1974	2267	2617	234	270	108	125	96	111	2.1	0.2
1975	2182	2299	215	227	104	109	95	100	2.1	0.2
1976	1271	1271	229	229	115	115	117	117	1.1	0.2
1977	1109	1051	249	236	121	115	132	126	0.9	0.2

TABLE III. Arms Transfers and Total Imports and Exports by Group and Region by Year—Continued

YEAR	ARMS IMPORTS Million dollars		ARMS EXPORTS Million dollars		TOTAL IMPORTS Billion dollars		TOTAL EXPORTS Billion dollars		ARMS IMPORTS / TOTAL IMPORTS	ARMS EXPORTS / TOTAL EXPORTS
	Current	Constant**	Current	Constant**	Current	Constant**	Current	Constant**	%	%
EUROPE										
1968	1737	2804	2335	3770	135	218	128	206	1.3	1.8
1969	1972	3031	1973	3033	157	241	148	227	1.3	1.3
1970	1795	2624	2332	3409	181	264	170	248	1.0	1.4
1971	2014	2801	2515	3497	202	281	192	266	1.0	1.3
1972	2950	3940	5037	6728	241	322	230	308	1.2	2.2
1973	3564	4503	8105	10240	334	421	314	397	1.1	2.6
1974	3708	4280	7136	8238	455	525	406	468	0.8	1.8
1975	4040	4256	7065	7443	487	513	446	469	0.8	1.6
1976	4937	4937	8857	8857	546	546	492	492	0.9	1.8
1977	4449	4217	10051	9527	611	579	570	540	0.7	1.8
NATOEURO										
1968	967	1561	501	809	91	147	86	140	1.1	0.6
1969	1234	1897	574	882	106	163	101	155	1.2	0.6
1970	1016	1485	509	744	121	177	116	170	0.8	0.4
1971	1224	1702	518	720	138	192	133	185	0.9	0.4
1972	1566	2092	1806	2412	163	218	160	214	1.0	1.1

1973	1036	1309	1925	2432	229	289	220	278	0.5	0
1974	1176	1358	1780	2055	314	362	287	331	0.4	0
1975	1528	1610	1983	2089	322	340	308	325	0.5	0
1976	2141	2141	2870	2870	368	368	340	340	0.6	0.8
1977	1776	1683	3434	3255	415	394	393	373	0.4	0.9
PACT										
1968	601	970	1803	2911	24	39	25	41	2.5	7.2
1969	621	955	1385	2129	26	41	28	43	2.4	5.0
1970	621	908	1798	2628	30	44	31	45	2.1	5.8
1971	621	864	1913	2660	33	46	34	47	1.9	5.7
1972	1113	1487	3113	4158	41	54	40	54	2.7	7.8
1973	2256	2850	6071	7670	54	68	53	67	4.2	11.5
1974	2233	2578	5220	6026	92	106	92	107	2.4	5.7
1975	2085	2197	4681	4931	125	132	112	118	1.7	4.2
1976	2299	2299	5576	5576	133	133	124	124	1.7	4.5
1977	2089	1980	6119	5800	103	97	102	97	2.0	6.0
OTHEREUR										
1968	169	273	31	50	20	33	16	26	0.8	0.2
1969	117	180	14	22	24	37	19	29	0.5	0.1
1970	158	231	25	37	29	43	22	33	0.5	0.1
1971	169	235	84	117	32	44	25	35	0.5	0.3
1972	271	362	118	158	37	50	30	40	0.7	0.4

TABLE III. Arms Transfers and Total Imports and Exports by Group and Region by Year—Continued

YEAR	ARMS IMPORTS Million dollars Current	ARMS IMPORTS Million dollars Constant**	ARMS EXPORTS Million dollars Current	ARMS EXPORTS Million dollars Constant**	TOTAL IMPORTS Billion dollars Current	TOTAL IMPORTS Billion dollars Constant**	TOTAL EXPORTS Billion dollars Current	TOTAL EXPORTS Billion dollars Constant**	ARMS IMPORTS / TOTAL IMPORTS %	ARMS EXPORTS / TOTAL EXPORTS %
1973	272	344	109	138	51	64	41	52	0.5	0.3
1974	299	345	136	157	74	85	54	63	0.4	0.3
1975	427	450	401	422	76	81	59	62	0.6	0.7
1976	497	497	411	411	83	83	65	65	0.6	0.6
1977	584	554	498	472	93	88	74	71	0.6	0.7
LATIN AMERICA										
1968	160	258	0	0	13	22	13	21	1.2	0
1969	199	306	1	2	15	23	14	22	1.4	0.0
1970	140	205	1	1	17	24	16	23	0.8	0.0
1971	240	334	2	3	19	26	16	22	1.3	0.0
1972	396	529	8	11	21	28	18	24	1.9	0.0
1973	552	697	11	14	27	34	27	34	2.1	0.0
1974	474	547	1	1	46	53	43	49	1.0	0.0
1975	565	595	55	58	50	53	40	42	1.1	0.1
1976	925	925	201	201	45	45	41	41	2.1	0.5
1977	1029	975	37	35	50	47	48	45	2.1	0.1

NEAR EAST

1968	624	1007	13	21	7	11	9	14	9.3	0.1
1969	825	1268	12	18	8	12	10	15	10.4	0.1
1970	1246	1821	6	9	9	13	11	16	14.4	0.1
1971	1166	1621	2	3	10	14	15	21	11.6	0.0
1972	1940	2591	13	17	12	16	18	24	16.4	0.1
1973	3733	4716	29	37	17	22	27	34	21.8	0.1
1974	4294	4957	86	99	29	33	86	100	14.8	0.1
1975	3565	3756	109	115	41	44	82	87	8.6	0.1
1976	5233	5233	177	177	49	49	99	99	10.6	0.2
1977	6893	6534	127	120	65	62	107	101	10.6	0.1

NORTH AMERICA

1968	235	379	2811	4538	48	77	48	77	0.5	5.9
1969	237	364	3695	5679	52	80	52	80	0.5	7.1
1970	238	348	3299	4822	57	83	60	88	0.4	5.5
1971	177	246	3567	4960	65	90	63	87	0.3	5.7
1972	188	251	4306	5751	79	106	71	95	0.2	6.1
1973	315	398	5005	6323	99	124	98	123	0.3	5.1
1974	241	278	4703	5429	142	164	133	154	0.2	3.5
1975	300	316	4766	5021	139	147	142	150	0.2	3.4
1976	284	284	6060	6060	170	170	156	156	0.2	3.9
1977	287	272	6962	6599	200	189	165	156	0.1	4.2

TABLE III. Arms Transfers and Total Imports and Exports by Group and Region by Year—Continued

YEAR	ARMS IMPORTS Million dollars		ARMS EXPORTS Million dollars		TOTAL IMPORTS Billion dollars		TOTAL EXPORTS Billion dollars		ARMS IMPORTS / TOTAL IMPORTS	ARMS EXPORTS / TOTAL EXPORTS
	Current	Constant**	Current	Constant**	Current	Constant**	Current	Constant**	%	%
OCEANIA										
1968	76	123	2	3	5	9	5	7	1.4	0.0
1969	127	195	9	14	6	9	5	8	2.3	0.2
1970	102	149	2	3	6	9	6	9	1.6	0.0
1971	60	83	7	10	7	9	7	9	0.9	0.1
1972	90	120	13	17	7	9	8	11	1.3	0.2
1973	109	138	12	15	10	13	12	16	1.1	0.1
1974	212	245	35	40	16	19	14	16	1.3	0.3
1975	136	143	116	122	15	15	14	15	0.9	0.8
1976	93	93	33	33	16	16	16	16	0.6	0.2
1977	118	112	15	14	17	16	17	16	0.7	0.1
SOUTH ASIA										
1968	273	441	1	2	4	7	3	5	6.7	0.0
1969	255	392	4	6	4	6	3	5	6.6	0.1
1970	185	270	0	0	4	6	3	5	4.5	0
1971	304	423	1	1	4	5	3	4	7.8	0.0
1972	376	502	17	23	4	5	4	5	9.3	0.4

1973	421	532	3	4	6	7	5	6	7.3	0.1
1974	399	461	15	17	10	11	7	8	4.1	0.2
1975	322	339	29	31	12	12	7	7	2.8	0.4
1976	519	519	16	16	10	10	8	8	5.3	0.2
1977	746	707	37	35	11	11	10	9	6.7	0.4
NATO										
1968	1202	1941	3312	5347	138	223	134	217	0.9	2.5
1969	1471	2261	4269	6562	159	244	153	235	0.9	2.8
1970	1254	1833	3808	5566	178	260	176	258	0.7	2.2
1971	1401	1948	4085	5681	203	282	195	272	0.7	2.1
1972	1754	2343	6112	8163	242	324	231	309	0.7	2.6
1973	1351	1707	6930	8755	327	414	317	401	0.4	2.2
1974	1417	1636	6483	7484	[illegible]	527	420	485	0.3	1.5
1975	1828	1926	6749	7110	[illegible]	486	450	475	0.4	1.5
1976	2425	2425	8930	8930	539	539	496	496	0.5	1.8
1977	2063	1955	10396	9854	615	583	558	529	0.3	1.9
PACT										
1968	601	970	1803	2911	24	39	25	41	2.5	7.2
1969	621	955	1385	2129	26	41	28	43	2.4	5.0
1970	621	908	1798	2628	30	44	31	45	2.1	5.8
1971	621	864	1913	2660	33	46	34	47	1.9	5.7
1972	1113	1487	3113	4158	41	54	40	54	2.7	7.8

TABLE III. Arms Transfers and Total Imports and Exports by Group and Region by Year—Continued

YEAR	ARMS IMPORTS Million dollars Current	ARMS IMPORTS Million dollars Constant**	ARMS EXPORTS Million dollars Current	ARMS EXPORTS Million dollars Constant**	TOTAL IMPORTS Billion dollars Current	TOTAL IMPORTS Billion dollars Constant**	TOTAL EXPORTS Billion dollars Current	TOTAL EXPORTS Billion dollars Constant**	ARMS IMPORTS / TOTAL IMPORTS %	ARMS EXPORTS / TOTAL EXPORTS %
1973	2256	2850	6071	7670	54	68	53	67	4.2	11.5
1974	2233	2578	5220	6026	92	106	92	107	2.4	5.7
1975	2085	2197	4681	4931	125	132	112	118	1.7	4.2
1976	2299	2299	5576	5576	133	133	124	124	1.7	4.5
1977	2089	1980	6119	5800	103	97	102	97	2.0	6.0
OPEC										
1968	392	633	4	6	8	13	14	22	5.0	0.0
1969	476	732	10	15	9	14	15	23	5.3	0.1
1970	359	525	1	1	10	15	18	26	3.6	0.0
1971	571	794	3	4	12	16	22	31	4.9	0.0
1972	1053	1406	6	8	14	19	25	34	7.5	0.0
1973	1634	2064	6	8	20	26	40	50	8.1	0.0
1974	2426	2800	48	55	33	38	119	137	7.4	0.0
1975	2832	2983	70	74	52	55	110	116	5.5	0.1
1976	4766	4766	27	27	64	64	134	134	7.5	0.0
1977	6358	6027	43	41	87	83	146	139	7.3	0.0

OECD										
1968	1393	2249	3342	5396	176	284	169	273	0.8	2.0
1969	1772	2724	4304	6615	201	310	195	299	0.9	2.2
1970	1619	2366	3837	5608	230	336	225	329	0.7	1.7
1971	1761	2449	4178	5810	258	359	252	350	0.7	1.7
1972	2249	3004	6252	8350	308	411	298	398	0.7	2.1
1973	1879	2374	7040	8894	423	535	408	516	0.4	1.7
1974	2148	2480	6670	7700	603	696	546	630	0.4	1.2
1975	2680	2823	7202	7587	606	638	581	612	0.4	1.2
1976	3836	3836	9267	9267	697	697	648	648	0.6	1.4
1977	3705	3512	10776	10214	792	750	734	696	0.5	1.5

TABLE IV. Total Number of Weapons Exported by Major Suppliers to Developing Regions from 1973–1977 by Major Equipment Type—World Total

EQUIPMENT TYPE	TOTAL	UNITED STATES	SOVIET UNION	FRANCE	UNITED KINGDOM	CHINA	ITALY
LAND ARMAMENTS							
TANKS AND SELF-PROPELLED GUNS	16,544.00	5,961.000	7,278.000	840.000	975.000	1,490.000	-
ARTILLERY	7,909.000	3,901.000	3,080.000	129.000	22.000	437.000	340.000
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	12,241.00	7,809.000	3,246.000	313.000	60.000	152.000	661.000
NAVAL CRAFT							
MAJOR SURFACE COMBATANTS	117.000	102.000	5.000	-	10.000	-	-
MINOR SURFACE COMBATANTS	445.000	138.000	44.000	36.000	136.000	60.000	31.000
SUBMARINES	61.000	39.000	6.000	4.000	7.000	4.000	1.000
GUIDED MISSILE PATROL BOATS	46.000	-	40.000	6.000	-	-	-
AIRCRAFT							
COMBAT AIRCRAFT, SUPERSONIC	3,471.000	1,191.000	1,768.000	266.000	8.000	198.000	40.000
COMBAT AIRCRAFT, SUBSONIC	1,281.000	671.000	282.000	-	36.000	92.000	-
OTHER AIRCRAFT	1,594.000	834.000	226.000	66.000	260.000	4.000	204.000
HELICOPTERS	2,855.000	1,316.000	474.000	592.000	103.000	44.000	326.000
MISSILES							
SURFACE-TO-AIR MISSILES	20,935.00	5,594.000	14,459.00	272.000	610.000	-	-
AIR-TO-AIR MISSILES	4,182.000	3,806.000	-	326.000	50.000	-	-
AIR-TO-SURFACE MISSILES	6,409.000	6,097.000	-	312.000	-	-	-

TABLE V. Total Number of Weapons Exported by Major Suppliers to Developing Regions from 1973–1977 by Region by Major Equipment Type

Near East Region

EQUIPMENT TYPE	TOTAL	UNITED STATES	SOVIET UNION	FRANCE	UNITED KINGDOM	CHINA	ITALY
LAND ARMAMENTS							
TANKS AND SELF-PROPELLED GUNS	8,667.000	3,348.000	4,116.000	311.000	892.000	-	-
ARTILLERY	2,162.000	282.000	1,828.000	-	6.000	-	46.000
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	7,161.000	5,044.000	1,839.000	138.000	40.000	-	100.000
NAVAL CRAFT							
MAJOR SURFACE COMBATANTS	5.000	3.000	2.000	-	-	-	-
MINOR SURFACE COMBATANTS	118.000	26.000	18.000	-	74.000	-	-
SUBMARINES	3.000	-	-	-	3.000	-	-
GUIDED MISSILE PATROL BOATS	19.000	-	16.000	3.000	-	-	-
AIRCRAFT							
COMBAT AIRCRAFT, SUPERSONIC	1,653.000	609.000	925.000	119.000	-	-	-
COMBAT AIRCRAFT, SUBSONIC	438.000	274.000	161.000	-	3.000	-	-
OTHER AIRCRAFT	140.000	72.000	7.000	3.000	52.000	-	6.000
HELICOPTERS	975.000	288.000	200.000	202.000	33.000	-	252.000
MISSILES							
SURFACE-TO-AIR MISSILES	10,872.00	4,267.000	6,355.000	-	250.000	-	-
AIR-TO-AIR MISSILES	2,194.000	1,894.000	-	250.000	50.000	-	-
AIR-TO-SURFACE MISSILES	5,506.000	5,274.000	-	232.000	-	-	-

TABLE V. Total Number of Weapons Exported by Major Suppliers to Developing Regions from 1973–1977 by Region by Major Equipment Type—Continued

EQUIPMENT TYPE	TOTAL	UNITED STATES	SOVIET UNION	FRANCE	UNITED KINGDOM	CHINA	ITALY
LAND ARMAMENTS							
		Africa Region					
TANKS AND SELF-PROPELLED GUNS	1,909.000	71.000	1,625.000	45.000	55.000	113.000	-
ARTILLERY	1,353.000	81.000	860.000	129.000	16.000	137.000	130.000
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	1,108.000	86.000	902.000	59.000	-	-	61.000
NAVAL CRAFT							
MAJOR SURFACE COMBATANTS	1.000	-	-	-	1.000	-	-
MINOR SURFACE COMBATANTS	98.000	-	12.000	26.000	12.000	38.000	10.000
SUBMARINES	1.000	-	1.000	-	-	-	-
GUIDED MISSILE PATROL BOATS	11.000	-	11.000	-	-	-	-
AIRCRAFT							
COMBAT AIRCRAFT, SUPERSONIC	513.000	8.000	457.000	31.000	-	17.000	-
COMBAT AIRCRAFT, SUBSONIC	88.000	-	81.000	-	4.000	3.000	-
OTHER AIRCRAFT	183.000	9.000	34.000	53.000	67.000	-	20.000
HELICOPTERS	248.000	9.000	66.000	97.000	-	10.000	66.000
MISSILES							
SURFACE-TO-AIR MISSILES	7,134.000	-	6,700.000	240.000	194.000	-	-
AIR-TO-AIR MISSILES	306.000	306.000	-	-	-	-	-
AIR-TO-SURFACE MISSILES	-	-		-	-	-	-

TABLE V. Total Number of Weapons Exported by Major Suppliers to Developing Regions from 1973-1977 by Region by Major Equipment Type—Continued

EQUIPMENT TYPE	TOTAL	UNITED STATES	SOVIET UNION	FRANCE	UNITED KINGDOM	CHINA	ITALY
LAND ARMAMENTS --------------							
	Europe Region (LDC)						
TANKS AND SELF-PROPELLED GUNS	1,416.000	1,040.000	70.000	297.000	-	9.000	-
ARTILLERY	543.000	355.000	58.000	-	-	130.000	-
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	1,240.000	705.000	105.000	-	-	-	430.000
NAVAL CRAFT -----------							
MAJOR SURFACE COMBATANTS	29.000	29.000	-	-	-	-	-
MINOR SURFACE COMBATANTS	12.000	4.000	-	2.000	-	6.000	-
SUBMARINES	26.000	21.000	1.000	4.000	-	-	-
GUIDED MISSILE PATROL BOATS	3.000	-	-	3.000	-	-	-
AIRCRAFT --------							
COMBAT AIRCRAFT, SUPERSONIC	363.000	195.000	63.000	57.000	-	8.000	40.000
COMBAT AIRCRAFT, SUBSONIC	78.000	78.000	-	-	-	-	-
OTHER AIRCRAFT	111.000	84.000	26.000	1.000	-	-	-
HELICOPTERS	324.000	114.000	72.000	70.000	60.000	-	8.000
MISSILES --------							
SURFACE-TO-AIR MISSILES	1,195.000	1,135.000	60.000	-	-	-	-
AIR-TO-AIR MISSILES	365.000	365.000	-	-	-	-	-
AIR-TO-SURFACE MISSILES	100.000	100.000	-	-	-	-	-

LAND ARMAMENTS		East Asia Region					
TANKS AND SELF-PROPELLED GUNS	2,382.000	1,136.000	500.000	-	8.000	718.000	-
ARTILLERY	3.187.000	2,926.000	147.000	-	-	40.000	74.000
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	1,647.000	1,202.000	203.000	-	2[illegible].000	152.000	70.000
NAVAL CRAFT							
MAJOR SURFACE COMBATANTS	36.000	35.000	-	-	1.000	-	-
MINOR SURFACE COMBATANTS	106.000	77.000	-	4.000	21.000	4.000	-
SUBMARINES	6.000	2.000	-	-	-	4.000	-
GUIDED MISSILE PATROL BOATS	-	-	-	-	-	-	-
AIRCRAFT							
COMBAT AIRCRAFT, SUPERSONIC	487.000	361.000	28.000	-	-	98.000	-
COMBAT AIRCRAFT, SUBSONIC	400.000	333.000	-	-	-	67.000	-
OTHER AIRCRAFT	842.000	564.000	122.000	-	86.000	-	70.000
HELICOPTERS	934.000	819.000	54.000	27.000	-	34.000	-
MISSILES							
SURFACE-TO-AIR MISSILES	228.000	192.000	-	-	36.000	-	-
AIR-TO-AIR MISSILES	1,019.000	1,019.000	-	-	-	-	-
AIR-TO-SURFACE MISSILES	723.000	723.000	-	-	-	-	-

TABLE V. Total Number of Weapons Exported by Major Suppliers to Developing Regions from 1973-1977 by Region by Major Equipment Type—Continued

South Asia Region

EQUIPMENT TYPE	TOTAL	UNITED STATES	SOVIET UNION	FRANCE	UNITED KINGDOM	CHINA	ITALY
LAND ARMAMENTS							
TANKS AND SELF-PROPELLED GUNS	1,165.000	30.000	485.000	-	-	650.000	-
ARTILLERY	242.000	-	82.000	-	-	130.000	30.000
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	343.000	122.000	196.000	25.000	-	-	-
NAVAL CRAFT							
MAJOR SURFACE COMBATANTS	6.000	2.000	3.000	-	1.000	-	-
MINOR SURFACE COMBATANTS	13.000	-	1.000	-	-	12.000	-
SUBMARINES	4.000	-	4.000	-	-	-	-
GUIDED MISSILE PATROL BOATS	8.000	-	8.000	-	-	-	-
AIRCRAFT							
COMBAT AIRCRAFT, SUPERSONIC	291.000	-	216.000	-	-	75.000	-
COMBAT AIRCRAFT, SUBSONIC	63.000	-	36.000	-	5.000	22.000	-
OTHER AIRCRAFT	55.000	-	17.000	5.000	29.000	4.000	-
HELICOPTERS	195.000	-	38.000	149.000	8.000	-	-
MISSILES							
SURFACE-TO-AIR MISSILES	1,300.000	-	1,170.000	-	130.000	-	-
AIR-TO-AIR MISSILES	76.000	-	-	76.000	-	-	-
AIR-TO-SURFACE MISSILES	80.000	-	-	80.000	-	-	-

Arms Flows to LDCs: US-Soviet Comparisons, 1974-77

Central Intelligence Agency
National Foreign Assessment Center

November 1978

Key Judgments

This publication presents alternative methods for assessing the magnitude of Soviet arms sales and deliveries to less developed countries (LDCs)* and for comparing these activities with corresponding US programs. No attempt is made to assess the relative political, economic, or military benefits either country derives from arms transfers. The reader is cautioned that the estimates presented must be viewed in terms of the specific conceptual and data limitations described in the body of the paper.

The size of arms flows can be measured by a number of different yardsticks. Each yardstick is intended to answer different specific questions, and each is "valid" only within the context for which it was designed. None of the yardsticks measure the transfer of military capability, which depends not only on the quantities and characteristics of the arms but also on the ability of the recipient to use them.

Physical Indicators

A common method of comparing US-Soviet arms flows to LDCs is a simple count of weapons provided, but this method does not furnish a complete picture, for example, of quality differences and accompanying support and service efforts.

In the four-year period 1974-77, Moscow sold and delivered to the LDCs more fighter and bomber aircraft, tanks, antiaircraft guns, and artillery pieces than Washington. The Soviets also provided ships of greater aggregate value, though fewer in number. On the other hand, the United States provided many more trainer and transport aircraft, helicopters, armored personnel carriers, and self-propelled artillery pieces than the Soviets.

Going beyond the numerical count, we find that, on the whole, better provision was made for support and maintenance of US than of Soviet equipment in the LDCs. Washington also provided more advisory personnel in LDCs than did Moscow, and a larger number of LDC military technicians were trained in the United States than in the Soviet Union.

Soviet Export Prices

Estimates of the monetary value of arms transactions enable us to overcome some of the inadequacies of comparisons in physical units.

When measured in estimated Soviet export prices—relevant for judging the impact on the recipient country's foreign trade and foreign payments position—Soviet arms *sales* to LDCs in dollar terms are estimated to have been about $14.5 billion for the 1974-77 period and arms

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* For the purpose of this paper, LDCs are defined as including the following: (1) all countries of Africa except the Republic of South Africa, (2) all countries of East Asia except Hong Kong and Japan, and Cambodia, Laos, and Vietnam, which became Communist countries in 1975; (3) Greece and Turkey in Europe; (4) all countries in the Middle East and South Asia; and (5) all countries in Latin America, except Cuba.

deliveries approximately $11 billion. Annual Soviet deliveries have grown since 1975, reaching $3.5 billion in 1977; annual sales have followed the same pattern and were more than $4 billion in 1977. Soviet arms export prices are set in accordance with Moscow's political decisions; they are generally lower than prices for competitive US arms.

Comparable US Dollar Costs

Accordingly, for valid direct comparisons with US military exports, it is necessary to estimate what Soviet arms exports would have cost if they had been sold by the United States on the basis used by the US Department of Defense in establishing prices of US military exports. On this basis Soviet arms sales and deliveries to LDCs in 1974-77 amounted to more than one-third more in US dollar cost terms than at Soviet export prices. The estimates of Soviet arms flows valued in terms of comparable US dollar costs yield the following overall comparisons for 1974-77.

- Total Soviet arms deliveries ($14.8 billion) were about three-quarters of US deliveries ($20 billion).
- Total Soviet arms sales ($20 billion) were less than one-half of US sales ($44 billion).

Differences in Composition

The composition of the US and Soviet arms export programs in US dollar costs differ greatly (see table 1).

The largest source of difference is in military related construction. Two-thirds of US sales of services represent military and dual purpose construction in Saudi Arabia—programs that have no Soviet counterpart. The major differences in program composition lead to greatly varying comparative levels of deliveries and sales for particular categories of arms. For example:

- Soviet deliveries of weapon systems were about 10 percent *above* US deliveries.
- At the other extreme, Soviet sales of military services were 11 percent of US sales.

Deliveries vs. Sales

The above comparisons indicate that Soviet arms deliveries are substantially larger relative to US deliveries than are Soviet arms sales relative to US sales. There are two principal reasons for this:

- The average leadtime between sales and deliveries is much larger in the US program (about three years) than in the Soviet program (12 to 18 months).
- US sales data reflect built-in inflation allowances which could not be removed. This results from the inclusion in contract values of expected cost increases in the period between sale and delivery of items. But our estimates of Soviet sales (valued in US costs) are free of this particular distortion and hence US sales tend to be somewhat overvalued compared to Soviet sales.

Table 1

United States and USSR: Composition of Arms Sales and Deliveries in US Dollar Costs, 1974-77

Share of Total

	Deliveries (Percent)		Sales (Percent)	
	United States	USSR	United States	USSR
Total	100	100	100	100
Weapon systems	39	58	35	60
Support	37	33	35	33
Services	24	9	30	7

Arms Flows to LDCs: US-Soviet Comparisons, 1974-77

Introduction

US and Soviet arms sales and deliveries to LDCs are difficult to compare because they differ so much in composition, financial arrangements, and goals. Any common denominator used for comparative sizing is inevitably imperfect, and its limitations must be understood in interpreting such comparisons. This paper discusses four different methodologies for measuring Soviet activities, examines the strengths and weaknesses of each, and compares the results, where appropriate, with US arms flows.

In this paper the four measures presented for sizing Soviet arms flows to LDCs are:

- Physical units.
- Estimated costs to the recipient country (Soviet export prices, expressed in US dollar costs).
- Estimated cost if the arms were provided by the United States (estimated US dollar costs).
- Estimated share of defense outlays devoted to arms flows by each supplier country (percentages calculated from monetary aggregates that are expressed in national currencies).

Definitions

The data described in this paper encompass the estimated costs of those arms sales and deliveries that in the United States would be grouped under (a) the Military Assistance Program (MAP), (b) Foreign Military Sales (FMS), and (c) Commercial Transactions. Included are:

- Weapon systems (and initial spare parts), including small arms.
- Support:
  - Items such as trucks and other general purpose vehicles and equipment, communication systems, and radars.
  - Maintenance support including: spare parts, supplies, equipment, and tools for servicing and repair of weapon systems; and overhauls and repairs in the supplier country.
  - Ammunition, bombs, mines, grenades, and military explosives.
- Associated services, such as training and technical assistance and construction of military facilities.

US Data

The US data on sales and deliveries used in this paper were provided by the Defense Security and Assistance Agency and the Office of Munitions Control. The data have been converted to calendar years and are expressed in 1976 dollars. The US data in this report thus do not match actual budget authorizations, appropriations, or outlays.

Estimates of Soviet Military Sales and Deliveries

The estimates of the volume and value of Soviet arms flows presented in this paper were developed for the most part from detailed identification and listing of Soviet arms *deliveries*. The physical items so identified and listed were given a monetary value through the use of estimated prices—Soviet export prices in one comparison and estimated US costs in the other. *Sales* were taken from reports on the value of Soviet-LDC arms agreements; where no agreement information was available, sales estimates were based on delivery information. Within the sales total, values of particular types of equipment were in most cases imputed from deliveries by applying the appropriate timelag between sales and actual deliveries. Soviet export prices for weapons systems were converted into US dollars using the prevailing exchange rates.

Equivalent US production costs for Soviet weapon systems were developed using cost estimating models, which have been designed to estimate the cost of producing the Soviet equipment in the United States. To these costs were then added an estimate of the charges required by law for US military exports: (a) prorated shares of research, development, test, and evaluation costs; (b) prorated share of nonrecurring production costs; (c) asset use charges for use of US Government facilities and capital goods; (d) US Department of Defense administrative and program management costs; and (e) accessorial charges for packing, handling, and crating. These extra charges added 10 to 15 percent to the estimated dollar costs of producing exported Soviet arms in the United States.

Estimates of the dollar value of Soviet military support (the second category) were derived from information on the size of LDC inventory holdings of weapons and support equipment, Soviet maintenance and ordnance supply practices, the quality of support provided LDCs by the USSR, and rates of usage and operation of equipment in LDCs.

In the case of Soviet-supplied services (the third category), calculations were based on the estimated number of Soviet military advisers in the LDCs, the number of LDC trainees in the USSR, the salaries and other maintenance expenses of the technicians and advisers, and a survey of the small number of Soviet military construction projects in LDCs.

Caveats

The reliability of these estimates depends on the precision and accuracy of our physical estimates of Soviet arms sales and deliveries and the price and cost factors applied to the physical series. The margin of error can be substantial for some. We have more confidence in the higher levels of aggregation than in the lower ones. Within the lower levels, our confidence varies from category to category.

As between Soviet sales and deliveries and as among Soviet weapon systems, support, and associated services, we place our greatest confidence in the estimate of *deliveries of weapon systems*. These numbers are based for the most part on detailed estimates of the physical quantity of Soviet weapons delivered and on prices that can be ascertained with reasonable confidence. Support costs are known with less certainty, and their estimation requires the use of fairly broad imputations and analogies. Information on the costs of associated services is still scarcer and less reliable. Estimates of Soviet arms sales are less precise than estimates of deliveries because, as explained above, they are derived in part from delivery data.

Although estimates of Soviet military transactions are constructed to be as comparable as possible with US military sales and delivery data, US-Soviet comparisons should not be considered as precise measurements. Compilers and users of these comparisons should take into account the following cautions:

- Errors may arise because of the use of incomplete or inaccurate information on quantities of military goods and services and inappropriate prices and costs.
- The composition of the US and Soviet service programs differ greatly; in particular, the US program includes large construction projects, often with dual military-civilian uses, which have no Soviet counterparts.
- Comparisons of sales are further complicated by the inclusion in US sales data of an allowance for anticipated future price inflation (not present in estimates of Soviet sales).

Finally, it is important to keep in mind that none of the comparisons in this paper should be used alone to draw inferences about the transfer of military *capability* to LDCs. Among the many complex elements that affect military capabilities and are not measured in the present analysis are:

- The use of differing weapons technologies, components, and designs by the Soviets to achieve results competitive with US weapons, but with different dollar costs.
- The differing geographic and strategic context in which particular weapons are used.
- The greatly varying abilities of the recipient countries to use the arms because of differences in leadership, organization, technical skills, and experience.

Comparison of Physical Units

For some purposes, comparisons of arms sales and deliveries in terms of actual physical units (for example, number of tanks and fighter aircraft) are the most appropriate. Comparisons of major items of military equipment in physical units show that the Soviets have been selling and delivering somewhat larger numbers of fighter aircraft, tanks, and artillery than has the United States, but fewer ships and armored vehicles (see figure 1 and tables 1 and 2—tables follow in the appendix). The Soviet ships, however, are much larger and more modern. For other elements of military transactions, such as the amount and quality of maintenance, and the supply of ammunition, however, physical indicators are not available and comparisons must rely on imputation, analogies, and judgments based only partly on quantitative information.

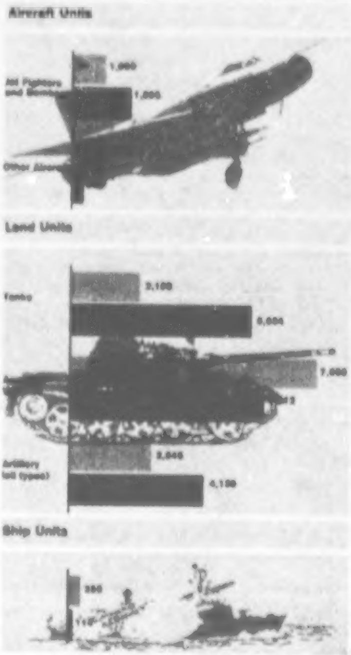
Physical comparisons do not take into account differences in quality and effectiveness of equipment. Nor do they provide a common denominator for assessing the aggregate level of sales and deliveries. Estimates of the value of military transactions enable us to overcome some of the problems in comparing physical units and allow for an aggregation of the data.

Comparison of Cost to the Recipient Country

Estimates in terms of costs to the recipient countries are an appropriate basis for valuing actual trade flows in arms. Estimates of these trade costs permit analysis of the role of military transactions in the foreign trade and payments of both the supplier and recipient. In turn, they become the basis for estimates of LDC indebtedness and debt repayments. Soviet export prices have been used in the Intelligence Community's annual estimates of Communist arms sales and

Figure 1

United States and USSR: Sales of Selected Weapon Systems to the LDCs, 1974–77



deliveries to the LDCs and are the basis for the data published in the annual CIA report *Communist Aid to Less Developed Countries of the Free World*.

The results of this methodology are shown in appendix table 3. It shows that Soviet sales in 1977 reached a near record of almost $4.5 billion. Only in 1974, when Moscow was restocking Middle East inventories, had sales been higher. They had moved from annual levels of less than $200 million in the last half of the 1950s, when the program was initiated, to more than $600 million in 1960. As the USSR's earliest clients (Egypt, Iraq, and Syria) built up and modernized their stocks, and as new customers were added to the Soviet list, sales maintained their momentum throughout the 1960s. In 1970 they shot up beyond the billion dollar mark, and then maintained an upward course until the October 1973 war. Delivery patterns have followed sales closely as Moscow responded rapidly to orders. At yearend 1977, the USSR had delivered 85 percent of all arms sold its Third World customers.

The estimates presented in this report for Soviet military deliveries in 1974-77 are almost 15 percent higher than previous estimates because:

- The methodology for estimating support costs has been improved.
- An estimate of military-related services is included for the first time.

Comparison of Estimated US Dollar Costs

It is common practice in the Soviet arms sales program to charge attractive prices for political purposes. This practice makes it inappropriate to use Soviet export prices for direct comparisons with US military export programs. For this latter purpose, we estimate what the costs of Soviet arms sales and deliveries would have been if the US Department of Defense had furnished the same weapon systems, support equipment, maintenance support, ordnance, and associated services. These estimates cover the costs of producing the same weapons, equipment, and spare parts in the United States, including all appropriate additional export charges and estimates of the costs of associated services. They do not measure actual Soviet costs.

Deliveries

For the 1974-77 period as a whole, Soviet military deliveries to LDCs in estimated US dollar costs ($14.8 billion) were about three-quarters of US deliveries ($20 billion). US deliveries grew throughout the period while Soviet deliveries declined in 1975, before growing in 1976 and 1977 (see appendix table 4).

The composition of total Soviet deliveries differed greatly from that of US deliveries (see figure 2). Weapon systems constituted 59 percent of Soviet deliveries and only 39 percent of US deliveries. The Soviet share for support costs was somewhat smaller than the US share (34 percent compared with 37 percent). Services bulked much larger in US deliveries (24 percent) than in Soviet deliveries (7 percent).

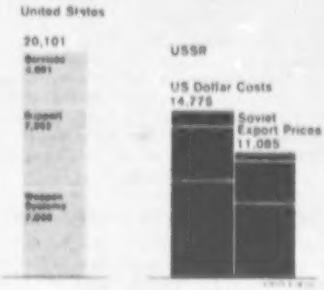
Weapon Systems

Soviet weapon systems deliveries valued at estimated US costs were 9 percent larger than comparable US deliveries in 1974-77 (see appendix table 5):

Figure 2

United States and USSR: Arms Deliveries to LDCs, by Category, 1974-77

Million 1976 US $



Latin America Region

LAND ARMAMENTS

TANKS AND SELF-PROPELLED GUNS	1.005.000	336.000	482.000	187.000	-	-	-
ARTILLERY	422.000	257.000	105.000	-	-	-	60.000
ARMORED PERSONNEL CARRIERS AND ARMORED CARS	742.000	650.000	1.000	91.000	-	-	-

NAVAL CRAFT

MAJOR SURFACE COMBATANTS	40.000	33.000	-	-	7.000	-	-
MINOR SURFACE COMBATANTS	98.000	31.000	13.000	4.000	29.000	-	21,000
SUBMARINES	21.000	16.000	-	-	4.000	-	1.000
GUIDED MISSILE PATROL BOATS	5.000	-	5.000	-	-	-	-

AIRCRAFT

COMBAT AIRCRAFT, SUPERSONIC	164.000	18.000	79.000	59.000	8.000	-	-
COMBAT AIRCRAFT, SUBSONIC	214.000	186.000	4.000	-	24.000	-	-
OTHER AIRCRAFT	263.000	105.000	20.000	4.000	26.000	-	108.000
HELICOPTERS	179.000	86.000	44.000	47.000	2.000	-	-

MISSILES

SURFACE-TO-AIR MISSILES	206.000	-	174.000	32.000	-	-	-
AIR-TO-AIR MISSILES	222.000	222.000	-	-	-	-	-
AIR-TO-SURFACE MISSILES	-	-	-	-	-	-	-

- Soviet deliveries of land armaments were 80 percent larger.
- Soviet deliveries of ships were eight times US deliveries in terms of value, a reflection of the far larger size and modernity of the Soviet ships, the number of US ships being larger.
- Soviet deliveries of aircraft and missiles were about 20 percent less than the corresponding US figure.

Support

US deliveries of military support were more than 50 percent higher than similar Soviet deliveries. While Soviet ordnance deliveries surpassed US ordnance deliveries, the United States had a larger role in the supply of spare parts, communication equipment, radar, and major support equipment. Although these figures to some extent reflect differences in the requirements of the recipient countries, recipients of US arms were consistently provided with more complete support and maintenance than Soviet clients.

Associated Services

US deliveries of asssociated services were nearly four times the comparable Soviet figures—a reflection of a moderately larger provision of training and technical assistance and a large US construction program which has no appreciable Soviet counterpart. Two-thirds of the services in US deliveries represent military-related construction in Saudi Arabia. If Saudi Arabia is removed from the figures, the value of US services would drop to one and one-half times that of the Soviets (see appendix table 6).

Sales

Comparisons of Soviet with US arms sales to LDCs are more uncertain than comparisons on deliveries because of several complicating factors. An important problem is an inconsistency in the price bases used for the two countries. When US costs are used as the yardstick, our estimates of Soviet arms sales (like those of Soviet arms deliveries) are calculated in terms of 1976 dollars. However, US arms sales contracts include a built-in provision for future inflation—that is, they reflect the projected prices of equipment and services at the scheduled time of future delivery. For example, US aircraft sold in 1976 and scheduled for delivery in 1979 will carry a price tag that quite appropriately takes into account expected inflation during the intervening three years. If, for example, an assumed annual inflation rate of 5 percent were applied, it would yield a price adjustment of more than 15 percent. We do not know the magnitude of the appropriate US inflation factor and were therefore unable to eliminate this element in the US series, or to adjust our estimate of Soviet sales for comparability. Consequently, comparisons of US with Soviet sales based on the available US data and our estimated Soviet figures tend to overstate the relative magnitude of US sales.

US sales in 1974-77 were more than double the estimated US cost of Soviet sales, as shown in appendix table 7. For weapon systems the US total is one-third higher (see appendix table 8). US sales are larger for aircraft and about double for ships and missiles. The figures are higher for Soviet sales of land armaments, largely reflecting much higher tank sales.

In the case of military-associated services, US sales exceed Soviet sales by about nine to one, with almost two-thirds ($9 billion) of the US services sold to Saudi Arabia. The US program in Saudi Arabia so far has consisted primarily of airfields, roads, base facilities, and other kinds of construction. If the Saudi program is excluded, US sales of services exceed Soviet sales by about three to one (see appendix table 9).

The fact that total US sales are much higher than Soviet sales does not necessarily mean that the much narrower difference in deliveries will increase in the future. To some extent it will depend on how fast the United States delivers the $25 billion backlog of orders. In the recent past, Soviet leadtimes between Soviet sales and deliveries have been only about 12 to 18 months, while US leadtimes are about three years. In the case of weapon systems, the USSR has heretofore been willing to give many LDC orders priority treatment. Moscow has frequently drawn on existing stocks of military equipment and in some cases has shifted readily available reconditioned hardware being mustered out of its inventory. These practices give Moscow great flexibility in its foreign arms activities and make it difficult to project future deliveries from past sales.

Relation to Overall Defense Spending

We lack sufficient information on production costs and prices of military goods and services within the Soviet Union to make ruble cost estimates of both US and Soviet arms flows parallel to the dollar cost estimates. We would expect pricing in rubles to yield a somewhat higher ratio of US military transactions to Soviet transactions than is obtained with dollar pricing. This expectation is based on the general presumption that, being endowed with different resources and technologies, countries tend to produce more of those products using resources that are abundant (and hence lower priced) and fewer of those products using scarcer (and hence higher priced) resources. Costing in dollars thus gives relatively high weight to items that the USSR produces in larger quantity and tends to overstate Soviet military exports; conversely, costing in rubles would tend to overstate US military exports.

Even so, there are sufficient data to make rough estimates of Soviet arms flows in rubles in order to assess the size of Soviet arms sales and deliveries within the context of the Soviet economy over time and to permit broad comparisons with the United States of the economic impact of foreign military transactions.

Such a comparison shows that in both the United States and the USSR, military exports (including support services) are small compared with overall defense expenditures. Measured in 1976 dollars, US arms flows to LDCs in 1974-77 are about 4 percent of total US defense spending. Soviet arms flows to LDCs in the same period, measured in domestic rubles, constitute a slightly larger share of estimated total Soviet defense expenditures—to 5 to 6 percent.

Comments and queries on this paper are welcome and may be directed to the Director for Public Affairs, Central Intelligence Agency, Washington, D. C., 20505; area code 703-351-7676. For information on obtaining additional copies, see the inside of the front cover.

APPENDIX

STATISTICAL TABLES

Table 1

United States and USSR: Sales of Selected Weapon Systems to LDCs

Units

	United States [1]					USSR				
	1974-77	1974	1975	1976	1977	1974-77	1974	1975	1976	1977
Aircraft										
Jet fighters	1,092	362	240	259	231	[illegible]	697	231	349	590
Jet bombers	1	0	0	1	0	[illegible]	12	7	0	0
Jet trainers	196	71	31	39	55	9	0	4	0	5
Jet transports	227	60	76	47	44	69	0	5	21	43
Reconnaissance, other military	99	34	32	13	20	0	0	0	0	0
Helicopters	506	153	150	116	87	311	86	55	97	73
Ships										
Destroyers	45	21	4	8	12					
Destroyer escorts	5	2	1	2	0					
Patrol, landing craft	282	71	122	62	27	114	40	23	15	36
Minesweepers and minelayers	10	4	2	4	0					
Submarines	13	6	2	5	0					
Land										
Armored vehicles	7,638	3,383	1,168	1,301	1,786	6,012	2,354	1,084	1,386	1,188
Tanks	2,168	827	291	369	681	5,634	2,567	450	947	1,670
Self-propelled guns	1,896	854	430	357	255	92	18	30	30	14
Antiaircraft guns	135	20	50	53	12	1,637	786	281	203	367
Artillery	514	84	117	163	150	2,410	810	558	384	658
Mortars	3,207	535	738	1,110	824	1,730	896	772	4	58
Rocket launchers	1,677	19	383	38	1,237	3,672	1,423	2,005	84	160

[1] Estimated calendar years.

Table 2

United States and USSR: Deliveries of Selected Weapon Systems to LDCs

Unit

	United States[1]					USSR				
	1974-77	1974	1975	1976	1977	1974-77	1974	1975	1976	1977
Aircraft										
Jet fighters	1,352	326	345	375	306	1,376	335	246	317	478
Jet bombers	0	0	0	0	0	19	0	12	7	0
Jet trainers	220	50	46	54	66	8	0	4	0	4
Jet transports	98	21	30	18	23	58	0	5	19	34
Reconnaissance, other military	34	4	7	8	15	0	0	0	0	0
Helicopters	471	138	146	117	70	247	45	56	90	56
Ships										
Destroyers	52	23	11	7	11	88	20	25	14	29
Destroyer escorts	5	2	1	1	1					
Patrol, landing craft	216	71	73	33	39					
Minesweepers and minelayers	30	11	5	13	1					
Submarines	16	12	2	0	2					
Land										
Armored vehicles	6,280	1,651	1,391	1,342	1,903	4,513	1,180	1,098	1,195	1,040
Tanks	2,246	832	312	653	449	3,955	1,290	480	853	1,332
Self-propelled guns	1,700	573	344	280	503	83	0	29	24	30
Antiaircraft guns	112	42	34	9	27	1,171	395	295	185	296
Artillery	312	130	85	30	67	1,873	407	595	346	525
Mortars	1,951	988	664	115	184	1,386	445	883	4	54
Rocket launchers	789	26	33	5	725	3,050	715	2,136	79	120

[1] Estimated calendar years.

Table 3

USSR: Arms Sales and Deliveries to LDCs in Soviet Export Prices[1]

Million US $[2]

	Arms Sales					Arms Deliveries				
	1974-77	1974	1975	1976	1977	1974-77	1974	1975	1976	1977
Total	14,540	4,690	2,294	3,192	4,368	11,083	2,685	2,130	2,803	3,520
Weapons systems	8,910	2,747	1,340	2,113	2,710	6,580	1,355	1,808	1,651	2,156
Aircraft	4,810	1,481	777	1,162	1,450	3,522	714	713	939	1,156
Ships	706	225	106	158	217	510	111	114	113	172
Land armaments	2,306	871	308	582	685	1,813	614	250	395	544
Missiles	1,008	230	149	271	358	731	116	116	303	296
Support	4,857	1,756	752	885	1,464	3,794	985	751	890	1,168
Communications equipment/radar	296	91	41	67	97	210	43	45	48	78
Major support equipment	389	187	82	71	49	310	96	89	86	39
Spare parts, other support	2,211	789	294	460	668	1,656	397	313	416	532
Ordnance	1,961	680	335	287	650	1,616	387	304	406	519
Services	773	183	202	194	194	725	146	183	202	194
Construction	20	5	5	5	5	20	5	5	5	5
Training	174	62	42	35	35	189	50	62	42	35
Technical assistance	579	116	155	154	154	516	91	116	155	154
Supply operations	NA[3]	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

---

[1] Estimates of the actual prices charged LDCs. The estimates for spare parts, other support, and ordnance have been revised to reflect new research and differ from data used in previous publications. Services are included in the estimates for the first time.

[2] At current exchange rates.

[3] Not available.

Table 4

United States and USSR: Arms Deliveries to LDCs in US Dollar Costs

Million 1976 US $

	United States [1]					USSR [2]				
	1974-77	1974	1975	1976	1977	1974-77	1974	1975	1976	1977
Total	20,101	4,049	4,693	5,236	6,150	14,775	3,718	3,071	3,611	4,375
Weapon systems	7,898	1,642	1,885	2,015	2,353	8,555	2,150	1,652	2,076	2,640
Aircraft	5,475	1,059	1,281	1,485	1,650	4,417	940	913	1,124	1,440
Ships	123	35	33	26	31	980	307	225	225	220
Land armaments	1,309	353	358	308	309	2,440	800	403	320	900
Missiles	911	157	153	198	390	700	100	111	109	380
Support	7,252	1,666	1,785	1,850	2,051	4,530	1,340	1,066	1,145	1,380
Communications/radar	302	63	62	93	84	252	81	66	49	56
Major support equipment	703	121	211	227	144	318	97	92	88	43
Spare parts, other support	4,730	910	1,067	1,222	1,531	2,140	400	520	580	640
Ammunition, other ordnance	1,617	572	445	308	298	2,090	610	390	480	600
Services	4,951	741	1,023	1,371	1,746	1,390	290	350	390	360
Construction	1,608	167	326	500	608	40	10	10	10	10
Training	516	97	124	130	165	170	50	60	30	30
Technical assistance	1,566	169	268	452	677	1,180	230	280	350	320
Supply operations	730	216	205	169	140	NA	NA	NA	NA	NA
Other	467	92	100	129	146	NA	NA	NA	NA	NA

---

[1] Estimated calendar years.

[2] Costs of producing comparable weapon systems and support equipment in the United States, including all appropriate export charges, and estimates of the costs of spare parts, ordnance, and related military services.

Table 5

USSR: Cost Ratios of Soviet and US Arms Deliveries to LDCs, 1974-77

	Soviet Export Prices	US Dollar Costs
Total	0.85	0.74
Weapon systems	0.85	1.00
Support	0.58	0.60
Services	0.15	0.28

Table 6

United States and USSR: Arms Deliveries to LDCs, 1974-77

Million 1976 US $

	United States[1]		USSR	
	Total	Total (Excluding Saudi Arabia)	Soviet Export Prices[2]	US Dollar Costs
Total	20,101	16,554	11,883	14,775
Weapon systems	7,068	7,575	6,366	8,555
Support	7,352	6,893	3,794	4,830
Services	4,681	2,086	725	1,390

[1] Estimated calendar years.

[2] At current exchange rates.

Table 7 5

United States and USSR: Arms Sales to LDCs in US Dollar Costs

Million 1976 US $

	United States ¹					USSR ²				
	1974-77	1974	1975	1976	1977	1974-77	1974	1975	1976	1977
Total	44,884	12,090	10,[illegible]	10,983	10,273	19,818	6,355	3,179	4,308	5,953
Weapons systems	15,330	4,907	3,297	3,096	4,061	11,875	3,964	1,787	2,818	3,099
Aircraft	8,374	2,341	1,514	1,790	2,730	6,414	1,997	1,033	1,351	1,931
Ships	2,050	1,116	507	193	406	940	290	142	210	299
Land armaments	2,430	827	537	356	470	3,181	1,160	411	[illegible]	918
Missiles	2,274	613	[illegible]	575	417	1,543	306	190	361	677
Support	15,372	4,940	4,048	3,308	3,378	6,474	2,341	1,066	1,177	1,034
Communications equipment/ radar	911	317	184	250	190	394	120	54	90	130
Major support equipment	1,797	432	644	451	270	517	240	109	95	65
Spare parts, other support	9,937	2,031	2,533	2,146	2,407	2,650	1,054	380	610	604
Ammunition, other ordnance	2,727	1,066	711	430	491	2,913	919	447	192	955
Services	13,582	2,847	3,099	4,551	2,955	1,460	350	380	360	380
Construction	6,093	1,124	1,896	2,352	721	40	10	10	10	10
Training	1,181	223	253	300	436	150	60	30	30	30
Technical assistance	3,531	359	853	1,299	1,040	1,270	280	340	320	320
Supply operations	1,447	494	384	297	272	NA	NA	NA	NA	NA
Other	1,330	347	333	304	306	NA	NA	NA	NA	NA

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¹ Estimated calendar years.

² Costs of producing comparable weapon systems and support equipment in the United States, including all appropriate export charges, and estimates of the costs of spare parts, ordnance, and related military services.

Table 8

USSR: Cost Ratios of US and Soviet Arms Sales to LDCs, 1974-77

	Soviet Export Prices	US Dollar Costs
Total	0.33	0.45
Weapon systems	0.58	0.77
Support	0.32	0.42
Services	0.06	0.11

Table 9

United States and USSR: Arms Sales to LDCs, 1974-77

Million 1978 US $

	United States[1]		USSR	
	Total	Total (Excluding Saudi Arabia)	Soviet Export Prices	US Dollar Costs Basis
Total	44,284	32,804	14,540	19,818
Weapon systems	15,330	13,875	8,910	11,878
Support	15,373	14,097	4,857	6,478
Services	13,582	4,832	773	1,465

[1] Estimated calendar years

THE TRENDS IN THE ARMS TRADE WITH THE THIRD WORLD*

Square-bracketed numbers, thus [1], refer to the list of references on page 130.

I. Introduction

The spread of conventional weapons from the industrialized world to the Third World represents only one of the many complex factors related to the wider issue of arms control and disarmament.[1] While disarmament negotiations since 1945 have concentrated technically on the issue of nuclear weapons and politically on the issue of preventing the outbreak of war between the United States and the Soviet Union, it remains a fact that practically all wars during this period have been fought in the Third World and with conventional weapons. About 75 per cent of the current world arms trade is now with the Third World. Between 1970 and 1976 alone, the value of major weapons—that is, aircraft, missiles, armoured fighting vehicles and warships—supplied to the Third World was equal to that for the two decades 1950–70.[2]

The traffic in arms expanded practically unnoticed, undescribed and undebated until 1965, with supplier and buyer interests overshadowed by the overwhelming prospect of a nuclear holocaust. The expansion was both quantitative and qualitative. Quantitatively, the volume of military transfers to the Third World has increased more than 15-fold over the past 25 years, or at an average annual increase of some 12 per cent. However, the volume of the arms trade to the Third World started to show a particularly sharp increase in both absolute and relative terms after 1965. The average yearly increase from 1970 to 1976 was 15 per cent, compared with the 1960s, when the corresponding average annual rate of increase was 5 per cent from 1960 to 1966. The boom in the arms trade which characterizes the present decade cannot be explained merely by the increase in the number of new nations, which obviously influenced the statistics during the 1950s and early 1960s—when, as a rule, the former Asian and African colonies of the UK and France set up armed forces upon gaining independence.

Qualitatively also, there has been a distinct change in arms transfers to the Third World. During the 1950s, the main arms-producing industrialized nations, in particular the United States, concentrated mainly

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[1] A forthcoming SIPRI publication will analyse the role of all countries and all types of weapons involved in the global arms trade, as well as present a review of the arms control proposals made in various forums since 1970.
[2] See chapter 9 on the sources and methods of the study for a description of the SIPRI valuation of arms transactions.

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*Reprinted by permission. Stockholm Peace Research Institute. SIPRI Yearbook of World Armaments and Disarmament 1978. London, Taylor and Francis, Ltd., 1978. 518 p.

on modernizing their own armed forces and those of their allies. Large numbers of the weapons used in World War II were disposed of by transferring them to the newly independent states outside Europe and North America. As the European economies recovered, however, the build-up of the defence industries in France, FR Germany, Italy, the UK, and so on constituted a competitive element on the arms market to the dominant position of the United States. A similar pattern—although on a much smaller scale—is discernible for the socialist bloc as well. This development resulted in what can be expressed as a change from a seller's market to a buyer's market, where today any nation possessing sufficient funds is likely to find a seller of any weapon system required.

In this connection it can also be said that the distinction between conventional and nuclear weapons may be difficult to justify in the future. Already, some types of nuclear *delivery* systems have been transferred to Third World countries (for example, the US Lance surface-to-surface missile to Israel and the Soviet Scud to Egypt, Iraq and Syria), and if the spread of production capacity for nuclear weapons in the wake of the spread of nuclear energy production is not safeguarded in time, the arms traffic may eventually come to include traffic also in nuclear weapons.

The underlying theory behind SIPRI's decision to examine the arms trade with the Third World was that this trade is unique in comparison to the trade in any other commodity, because of its political and military consequences, both for the buyers and for the sellers. This has been expressed in many ways by many sources. The following statement by Julius Nyerere, for example, may serve as well as any other to define the political aspect of arms supplies:

> For the selling of arms is something which a country does only when it wants to support and strengthen the regime or the group to whom the sale is made. Whatever restrictions or limits are placed on that sale, the sale of any arms is a declaration of support—an implied alliance of a kind. You can trade with people you dislike; you can have diplomatic relations with governments you disapprove of; you can sit in conference with those nations whose policies you abhor. But you do not sell arms without saying, in effect: "In the light of the receiving country's known policies, friends, and enemies, we anticipate that, in the last resort, we will be on their side in the case of any conflict. We shall want them to defeat their enemies." [1]

In other words, the provision of the means for warfare has an intrinsic political and military significance even where the supplying country states only a commercial interest.

II. The flow of arms

The producer–suppliers

The list of main weapon suppliers is identical to that of the leading weapon producers. More specifically, the *governments* of the producing countries control the exports of arms. The non-governmental, so-called illegal, traffic in arms comprises only a small proportion of the total international arms trade, particularly because even a private transaction requires an export licence from the government of the exporting country. According to the 1971 SIPRI study [2a], arms sales by private dealers represent no more than 4 per cent of the total arms transfers, and only a minute proportion of these dealers operate without government approval.

The United States occupies the leading position in the field of military technology and is consequently the leading single exporter of major conventional arms. The US share of total arms exports to the Third World from 1970 to 1976 was 38 per cent (see table 8.1 for the rank order of arms-exporting nations during this period). The Soviet Union is the second largest supplier, with a total share of 34 per cent. This dual domination of the arms market is not explained by technological capacity alone, but by a quantitative factor as well—both the United States and the Soviet Union possess large armaments industries as regards production capacity and turnover, and are thus able to produce long series of the various types of weapon.

These dominant positions were, however, not a reality during the immediate post-war years. It can be seen from table 8A.2 (Appendix 8A) that the United States and the Soviet Union had not firmly established their leading positions until the early 1960s. From 1945 until 1960, Britain remained ahead of the Soviet Union—mainly because of warship orders but also because of the export of large numbers of aircraft dating from the 1940s. The pattern of arms supplies thus illustrates the global change in political roles, especially of the big powers, after 1945.

The position of the secondary suppliers, too, did not stabilize until the 1960s. A period of some 10 years elapsed after World War II before the European countries could really enter the arms export market. First, their production capacity had to be resurrected after World War II, particularly in the case of France, FR Germany and Italy. Second, the European powers' own weapon requirements had to be satisfied first. Gradually, however, a pattern of arms exports emerged. From the rank order of suppliers of major weapons for the period 1970–76 in table 8.1, it is possible to classify the arms suppliers into four groups: first, the USA and the USSR as the dominant suppliers; second, the UK and France in a category of their own as major suppliers, each with a 9 per cent share of the market; third, a group of medium suppliers, including Canada, China, FR Germany, Italy and the Netherlands; and fourth, a group of small suppliers. (The countries listed in table 8.2, below, as Third World arms exporters all belong to the fourth category.) And for all exporters except the two single cases of Japan and Czechoslovakia, the trend is a rising one.

Table 8.1. Rank order of arms suppliers to the Third World, 1970–76

Supplier	Total value of arms supplies *US $ mn*[a]	Per cent of world, total	Largest recipient regions	Region's per cent of supplier's total	Largest recipient country in each region	Country's per cent of supplier's total
USA	12 303	*38*	Middle East	*62*	Iran	*31*
			Far East	*27*	S. Viet Nam	*12*
			South America	*7*	Brazil	*2*
USSR	11 057	*34*	Middle East	*57*	Syria	*23*
			North Africa	*13*	Libya	*13*
			Far East	*13*	N. Viet Nam	*7*
UK	3 076	*9*	Middle East	*49*	Iran	*26*
			South America	*22*	Chile	*8*
			South Asia	*14*	India	*12*
France	2 963	*9*	North Africa	*24*	Libya	*16*
			Middle East	*23*	Egypt	*5*
			South America	*18*	Venezuela	*6*
Italy	562	*2*	Middle East	*40*	Iran	*34*
			South Africa	*27*	South Africa	*27*
			South America	*18*	Brazil	*10*
China	537	*2*	South Asia	*46*	Pakistan	*46*
			Far East	*29*	N. Viet Nam	*11*
			Sub-Saharan Africa	*25*	Tanzania	*16*
FR Germany	451	*1*	South America	*74*	Argentina	*22*
			Far East	*10*	Singapore	*6*
			Sub-Saharan Africa	*6*	Nigeria	*2*
Netherlands	214	*0.7*	Middle East	*40*	Iran	*28*
			Sub-Saharan Africa	*25*	Nigeria	*10*
			South America	*9*	Argentina	*6*
Canada	178	*0.6*	South America	*60*	Peru	*23*
			Sub-Saharan Africa	*28*	Zambia	*9*
			Middle East	*4*	Lebanon	*3*
Czechoslovakia	87	*0.3*	South Asia	*59*	India	*59*
			Middle East	*30*	Egypt	*11*
			Sub-Saharan Africa	*7*	Sudan	*7*
Spain	70	*0.2*	South America	*82*	Uruguay	*31*
			Far East	*11*	Indonesia	*11*
			Middle East	*7*	Jordan	*7*
Australia[b]	60	*0.2*	Far East	*82*	Indonesia	*50*
			South America	*15*	Brazil	*14*
			Middle East	*2*	Oman	*2*
Sweden	54	*0.2*	South Asia	*87*	Pakistan	*87*
			South America	*9*	Chile	*9*
			Sub-Saharan Africa	*4*	Sierra Leone	*4*
Poland[c]	36	*0.1*	South Asia	*99*	India	*99*
			Far East	*0.7*	Indonesia	*0.7*
Yugoslavia[c]	24	*0.1*	Middle East	*78*	Egypt	*70*
			Sub-Saharan Africa	*22*	Tanzania	*13*
Switzerland	17	*0.1*	South America	*59*	Argentina	*41*
			Far East	*18*	Thailand	*18*
			Middle East	*12*	Oman	*12*
New Zealand[b]	12	*0.04*	South Asia	*77*	India	*77*
			Far East	*23*	Thailand	*17*
Japan	6	*0.02*	Far East	*50*	Philippines	*50*
			Sub-Saharan Africa	*50*	Zaire	*50*
Belgium[b]	5	*0.02*	South Africa	*50*	South Africa	*50*
			Sub-Saharan Africa	*50*	Ethiopia	*50*
Ireland[b]	2	*0.01*	Middle East	*100*	Oman	*100*
Third World countries[d]	724	*2*	South Africa	*24*	South Africa	*24*
			Sub-Saharan Africa	*19*	Uganda	*15*
			South Asia	*18*	Pakistan	*12*
World total	**32 427**	**100**				

[a] At constant 1975 prices.

[b] Included under Other indus. West, table 8A.2, page 256.

[c] Included under Other indus. East, table 8A.2, page 256.

[d] See table 8.2 for the rank order of Third World arms suppliers.

With the increase in the number of countries capable of exporting arms, a noticeable competition for the Third World market broke out, resulting in what might be called a general commercialization of the arms trade. For the recipient countries this meant that, in cases where the dominant suppliers refused for political reasons to supply certain types of weapon, the emergence of new producers provided the buyers with new sellers to turn to. The case of Latin America provides an illustration of this development: during the early post-war period the United States had a virtual monopoly on arms sales in the region, but when the US government refused to sell the supersonic fighters requested, the buyers turned to European producers. South America is now among the three largest recipient regions for weapons from Australia, Canada, France, FR Germany, Italy, the Netherlands, Sweden, Switzerland and the UK. When the Soviet Union, according to Egyptian sources, refused to comply with requests for more sophisticated armaments, Egypt turned to West European producers for the acquisition not only of the weapons but of production know-how.

The so-called "buyer's market" in arms is visible on every occasion before the conclusion of a contract. The buyer often negotiates with several sellers at the same time, and the sellers do their utmost to improve the favourable conditions offered. The financial arrangements are of course of importance, but in addition no effort is spared to convince the buyer of the weapons' lethal capacities.

In this connection it is important that the weapon has been tested in any of the post-1945 battlefields in Indo-China or in the Middle East; in other words, they sell better when they are "well-blooded", as one source describes it:

> But the only real test and challenge to helicopter capability was at war; and Vietnam had given a useful flip to the business. "It's been well blooded", an electronics salesman assured me, about his system which had been used in helicopters over Vietnam, and the words "combat proven in South East Asia" were important in any sales pitch. The antics, the sudden take-offs and spectacular liftings on the television screens were all very well, but it was the sudden bursts of fire-power, the rain of bombs and the swoosh of torpedoes, which provided the real climax for the customers [3].

In regard to the enormous escalation of arms imports in the Middle East, it often goes unnoticed that the USA and the USSR are not the only suppliers to the region—several other countries are involved in securing their share of an apparently unlimited market, for example France and the UK, as well as Italy, the Netherlands, Spain, Switzerland and Yugoslavia.

The rise of Italy and Israel in the rank order of arms suppliers has occurred during the 1970s and for both these new producers, South Africa has become an important market. In particular, Italy has sold the licence for production of counter-insurgency (COIN) aircraft, and Israel has delivered ship-to-ship missiles.

In the case of FR Germany, the restrictions on arms production imposed by the Western European Union (WEU) in 1949 have been gradually loosened over the years, but it is still common practice for West German designs to be produced elsewhere, for example in Spain or France, and for the weapons not to be exported directly from FR Germany.

Among the Third World countries, the major arms exporters are those countries which have concentrated most heavily on the acquisition of military know-how, that is, which have invested in military industries (see table 8.2). Of those Third World countries which have reached an advanced production capability—most notably Argentina, Brazil, India, Israel and South Africa—Israel stands out as the most technologically advanced.[3] Moreover, several other Third World countries—in particular North and South Korea, and Taiwan—have fairly advanced indigenous arms industries and therefore export capacity, although because they have not yet begun to export, they are not included in table 8.2.[4]

For the socialist countries, it is also possible to discern a certain spread of export capacity, although on a much smaller scale than in the West. The Soviet Union alone accounts for 94 per cent of the socialist countries' arms exports (and furthermore, Czechoslovakia has on occasion acted as intermediary for Soviet suppliers, for example, to Egypt in 1955). But the past few years have seen an expansion of sales, particularly by Yugoslavia, Poland and Romania, of light trainers and other aircraft. This will in future make some impression on the large Soviet share of supplies from socialist countries.

Iran will probably invest heavily in local arms production, as will Egypt and Saudi Arabia. So far, Iran has re-exported US F-5A fighters, and Jordan's position as third in order of suppliers is likewise explained by the re-export of old equipment to South Africa and Oman.

The inclusion of the Ivory Coast and Gabon in the table is merely due to the export of French-designed patrol boats from French-built shipyards.

The transfer of know-how

The transfer of arms includes also the transfer of production know-how. The trend for Third World countries to import not only the weapons but

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[3] If the production and export of *small arms* were taken into account, both Argentina and India would occupy a higher place in the rank order.

[4] In regard to the small suppliers listed in table 8.1 above, one aspect should be kept in mind —if *small arms* were included in the data, this would mean a change upwards in the position of such leading small arms producers as Sweden, Switzerland and Belgium (see the forthcoming SIPRI publication on the global arms trade).

Table 8.2. Rank order of Third World arms suppliers, 1970–76

Supplier	Total value of arms supplies US $ mn[a]	Per cent of Third World total	Largest recipient regions	Region's per cent of supplier's total	Largest recipient country/ countries in each region	Country's per cent of supplier's total
Israel[b]	174	24	Central America	33	El Salvador	15
			Far East	30	Singapore	19
			South Africa	20	South Africa	20
Iran	160	22	South Asia	75	Pakistan	75
			Middle East	22	Jordan	21
			Sub-Saharan Africa	2	Ethiopia	2
Jordan	159	22	South Africa	90	South Africa	90
			Middle East	10	Oman	10
			South Asia	0.2	Pakistan	0.2
Libya	77	11	Sub-Saharan Africa	97	Uganda	97
			South Asia	3	Pakistan	3
Brazil[b]	47	6	South America	98	Paraguay	42
			Sub-Saharan Africa	2	Togo	2
South Africa[b]	30	4	Sub-Saharan Africa	100	Rhodesia	98
					Malawi	2
Singapore	17	2	Far East	81	Brunei	51
			Middle East	19	Kuwait	19
Cuba	13	2	South America	100	Peru	100
Ivory Coast	10	1	Sub-Saharan Africa	100	Cameroon	100
India[b]	7	1	South Asia	100	Bangladesh	70
					Nepal	30
Iraq	6	1	Sub-Saharan Africa	100	Uganda	100
Gabon	6	1	Sub-Saharan Africa	100	Cameroon	100
Malaysia	5	1	Far East	100	Indonesia	100
Egypt	4	0.5	Sub-Saharan Africa	67	Nigeria	67
			North Africa	33	Libya	33
Abu Dhabi	4	0.5	Middle East	100	Oman	56
					Yemen	44
Argentina[b]	3.5	0.4	South America	100	Bolivia	55
					Peru	43
					Paraguay	2
Saudi Arabia	1	0.1	Middle East	58	Oman	30
			South Asia	42	Pakistan	42
Chile	0.5	0.1	South America	100	Ecuador	100
Third World total	724	100				

[a] At constant 1975 prices.

[b] Most weapons exported are of local production.

also entire arms industries is rising, although for technical reasons more slowly than the rise shown in the figures for imports of weapons.

The build-up of domestic arms production capacities generally follows a pattern: first, a licence is acquired from one of the leading industrialized nations and production facilities are built, often involving huge technical and personnel assistance from the seller. Production then starts with the local assembly of imported sub-assemblies, for example an aircraft. The next step is to complete the sub-assemblies locally from imported components, then to manufacture the components locally from imported raw materials, and finally to produce also the raw materials. This last stage is not possible for the majority of new producers until after a considerable period of time since it involves both the availability of natural resources and the existence of related industries and infrastructure. In general, new producers must always import some components, such as advanced electronics, engines and certain types of armament.

It would be a mistake, however, to conclude that, for example, the Third World exporting countries (see table 8.2, above) have benefitted economically from the build-up of their local arms industries. The enormous financial difficulties encountered by any arms producer are exemplified by the arms industries of Western Europe. These difficulties are multiplied in an underdeveloped country with an insufficient technological base and infrastructure. Many projects in the Third World have stagnated at the blueprint stage, and even when a "success" is noted, one final obstacle remains for a new arms producer to overcome—namely, to market the weapon in competition with the well established producers. Israel, which is by far the most experienced new arms producer outside Europe, is a case in point. The Kfir-2, a fighter-bomber indigenously developed on the basis of the Mirage-3 and -5, has so far been impossible to export because it has a US engine whose export can be vetoed by the US government for either political or commercial reasons. Moreover, in some countries, such as India, South Africa and Brazil, the build-up of a local arms production and export capacity simply represents the international division of labour between the industrialized and the underdeveloped worlds: large producers—national or multinational, US or European—set up some parts of their production in countries where labour is cheap. Thus, French Alouette helicopters are manufactured in India under a licence agreement which includes offset contracts for the re-export from India of components also for the French helicopters.

The pattern of exports

Arms trade statistics indicate that this traffic is essentially a Western affair and responsibility—together, the Western countries account for 77.5 per cent of the total trade in major weapons during the period 1970–76. Of the total value for exports from the socialist countries, the USSR still stands out as virtually the sole supplier, with a 94 per cent share, while China accounts for 4 per cent and Czechoslovakia, Poland, Romania and Yugoslavia account for the remainder. However, statistics provide no basis for conclusions of a normative nature, not least the arms trade statistics. Although the claim by some representatives of socialist countries that they only supply arms to "progressive forces" in the world cannot be backed up by data, it is true that both the USA and the USSR do supply to régimes or other groups considered friendly or at least not hostile. These supplier guidelines are described in the 1971 SIPRI study [2b] as the "hegemonic supply policy".

However, a number of the recipients of Soviet supplies cannot be said to meet the criterion of progressivity, just as a large number of US clients do not measure up to such criteria as "democracies" or "representatives of the free world". And many clients of the smaller, non-aligned arms producers hardly comply with the criterion of being tension-free areas. In summary, the arms producers' own perceptions of their respective countries' policies do not correspond to true situations. It is true that the Soviet Union and some East European states were the main arms suppliers—and often the sole suppliers—to several liberation movements of socialist ideology, for example to the FNL in Viet Nam, to FRELIMO in Mozambique, and so on, but it is also evident that the Sino-Soviet conflict, for example, has influenced both these countries' decisions to support one or the other of the liberation movements. This is particularly visible in Africa, where China pursued an anti-Soviet policy until it found itself arming the same forces in Angola that were receiving South African and tacit Western military support.

The group of arms suppliers which act mainly as strictly commercial agents, that is, which trade for financial reasons, in turn experience an insoluble moral–commercial conflict. This has occurred in France, FR Germany, Italy and the UK, for example, in the case of arms supplied to South Africa.

The importer–recipients

Data on the import of major arms by Third World regions and countries (see table 8.3) illustrate the impact of the two big conflicts after World War II, the Arab–Israeli conflict and the war in Viet Nam. The Middle East region accounts for a total of 51 per cent of all major arms imports by the Third World during the 1970s. But within the region, the pattern of weapon imports has changed since around 1970. Up to then, those countries which were directly involved in the Arab–Israeli conflict were the leading importers, but by the latter half of the decade Israel and Egypt were overtaken by Iran. Iran is the single country with the largest arms imports in the region, as well as in the Third World, reaching 30 per cent of the total value for the Middle East during 1970–76.

During 1976 alone, Iran's imports of major weapons made up 23 per cent of the total Third World value. Supplies to the Middle East are still clearly dominated by the two great powers, but there are indications of a future change in this pattern. Other European suppliers are taking more Iranian orders, for example, the UK, France and Italy; and only Israel

Table 8.3. Rank order of Third World arms importers, 1970–76

Importing region	Total value of arms imports *US $ mn*^a	Percentage of Third World total	Six largest recipient countries	Total value of country's arms imports *US $ mn*^a	Percentage of region's total	Largest supplier to each country	Percentage of country's total	Four largest suppliers per region	Percentage of region's total
Middle East	16 484	*31*	Iran	4 900	*30*	USA	*43*	USA	*46*
			Egypt	2 864	*17*	USSR	*89*	USSR	*38*
			Israel	2 785	*17*	USA	*97*	UK	*9*
			Syria	2 595	*16*	USSR	*99*	France	*4*
			Iraq	1 122	*7*	USSR	*97*		
			Saudi Arabia	962	*6*	USA	*70*		
Far East, incl Viet Nam	5 434	*17*	S. Viet Nam	1 475	*27*	USA	*100*	USA	*62*
			N. Viet Nam	881	*16*	USSR	*93*	USSR	*27*
			S. Korea	662	*12*	USA	*99*	UK	*3*
			N. Korea	621	*11*	USSR	*91*	China	*3*
			Taiwan	424	*8*	USA	*95*		
			Thailand	262	*3*	USA	*78*		
South America	2 818	*9*	Brazil	612	*22*	USA	*33*	USA	*29*
			Argentina	510	*18*	UK	*28*	UK	*24*
			Venezuela	487	*17*	France	*35*	France	*19*
			Chile	455	*16*	UK	*47*	FR Germany	*12*
			Peru	355	*13*	USA	*25*		
			Ecuador	157	*6*	FR Germany	*29*		
North Africa	2 474	*8*	Libya	2 091	*85*	USSR	*69*	USSR	*59*
			Morocco	280	*11*	France	*35*	France	*28*
			Tunisia	54	*2*	France	*94*	USA	*8*
			Algeria	49	*2*	France	*43*	UK	*2*
South Asia	2 461	*8*	India	1 648	*67*	USSR	*66*	USSR	*49*
			Pakistan	673	*27*	China	*36*	UK	*17*
			Afghanistan	60	*2*	USSR	*100*	France	*11*
			Bangladesh	49	*2*	USSR	*90*	China	*10*
			Sri Lanka	17	*1*	UK	*41*		
			Nepal	13	*1*	UK	*38*		

Sub-Saharan Africa	1 536	*5*	Zaire	233	*15*	France	*76*	USSR	*32*
			Uganda	210	*14*	USSR	*48*	France	*21*
			Nigeria	157	*10*	USA	*40*	USA	*11*
			Mozambique	132	*9*	USSR	*100*	China	*9*
			Tanzania	107	*7*	China	*79*		
			Zambia	96	*6*	USSR	*31*		
South Africa	779	*2*	–	779	–	–	–	France	*51*
								Italy	*19*
								Jordan	*18*
								Israel	*4*
Central America	426	*1*	Cuba	168	*39*	USSR	*100*	USSR	*39*
			Mexico	138	*32*	UK	*81*	UK	*29*
			El Salvador	32	*8*	Israel	*81*	USA	*16*
			Guatemala	23	*5*	USA	*61*	Israel	*14*
			Panama	18	*4*	USA	*22*		
			Nicaragua	18	*4*	Israel	*98*		
Oceania	3	*0.01*	Fiji	3	*100*	USA	*100*	USA	*100*
Third World total	**32 427**	**100**							

* At constant 1975 prices.

will for the foreseeable future continue to rely almost exclusively on the USA for its import requirements. The alternative for Israel, rather than trying to diversify its sources of major arms, would be to invest in domestic arms industries. Saudi Arabia has placed large orders with US companies, but France will in future become a more prominent arms supplier to that country.

In general, the present long-term plans by Saudi Arabia, Kuwait and some of the other so-called "oil states" include heavy investment in the joint Arab arms industry in Egypt,[5] where the first big projects at present being discussed and negotiated are for French- and British-licensed weapons (for example, the Mirage F-1 fighter, the Hawk fighter, the Swingfire anti-tank missile and the Lynx helicopter).

The countries relying exclusively on arms supplies from the Soviet Union for the period 1970–76 are Egypt, Syria and Iraq. This pattern is also changing, however, a trend which will show up in future statistics.[6] Egypt has turned from the Soviet Union to France and Britain, and also imported military transport aircraft from the United States after 1974. Iraq, a country to which the Soviet Union has supplied 97 per cent of all its major arms imports since 1970 (see table 8.3), has placed large new orders in France.

The second largest arms-importing Third World region is the Far East, where the impact of the Indo-China War is clearly visible in the arms trade data. Viet Nam has therefore consistently been shown separately in SIPRI arms trade data (see table 8.4).[7] It should be emphasized that these statistics cannot be taken as a direct measure of military *intervention*, since the total cost of the US involvement in Indo-China—and also of the preceding French involvement—by far exceeded the value of military aid and arms supplies to the South Vietnamese forces. The higher value of US arms supplies to South Viet Nam as compared to Soviet supplies to North Viet Nam is rather an illustration of the difference in strategy between a technologically advanced nation and a technologically underdeveloped nation—the North Vietnamese relied on the principles of guerrilla warfare and concentrated essentially on manpower and light arms, which are not included in the SIPRI statistics. The major share of North Viet Nam's arms imports is accounted for by the SAM-2 and SAM-3 air defence systems deployed around Hanoi and Haiphong, which accounted for 66 per cent of all the major arms imports to this country

[5] The Arab Organization for Industrialization (AOI), a pan-Arab arms industry with headquarters in Cairo, was set up in April 1975 with a starting capital of $1 040 mn. The original members include Egypt, Qatar, Saudi Arabia and the United Arab Emirates; Kuwait has also made financial contributions and is reportedly interested in joining.

[6] The arms trade statistics cover only weapons delivered and not those on order; see chapter 9.

[7] No SIPRI data are at present available for the unified country of Viet Nam from 1975 onwards.

Table 8.4. Imports of major weapons by North and South Viet Nam, 1954–75

Recipient	Total value of country's imports *US $ mn*	Supplier	Total value of supplies *US $ mn*	Percentage of recipient's total imports	Weapon category	Percentage of recipient's total
North Viet Nam	2 174	USSR	1 986	*91*	Aircraft	*19*
					Missiles	*66*
					Armoured vehicles	*4*
					Warships	*2*
		China	188	*9*	Aircraft	*3*
					Armoured vehicles	*1*
					Warships	*5*
South Viet Nam	2 207	USA	2 176	*98.5*	Aircraft	*62*
					Missiles	*0.3*
					Armoured vehicles	*17*
					Warships	*20*
		France	22	*1*	Aircraft	*0.4*
					Armoured vehicles	*0.4*
					Warships	*0.07*
		Canada	9	*0.4*	Aircraft	*0.4*
		Japan	0.5	*0.02*	Aircraft	*0.02*

during the 1970s. Considerably less effort was devoted to acquiring supplies for the air force, and only a minor share went to the typically conventional army's inventory of tanks, armoured cars and other armoured vehicles. North Viet Nam had no navy to speak of, and was equipped only with river gunboats and other light craft.

The US-supported military forces of South Viet Nam illustrate another military strategy—heavy investment in the air force (in addition to the US-piloted fleet), in a conventional army equipped with tanks, and in a navy.

The political dimension of arms supplies is also well illustrated by the two Korean nations: South Korea relies on the USA for 99 per cent of its major arms imports—a trend which is not likely to be reversed easily, as South Korea is investing more heavily in a local arms production capacity with US aid—and North Korea relies on the Soviet Union for 91 per cent of its major arms imports, the remainder being covered by China. North Korea is also putting much effort into achieving a local production capacity exclusively under Soviet licences.

Taiwan is one of the relatively few nations that have so far been given access to US military know-how (the sale of production licences being most common for the UK and France), most significantly with the local production of Northrop's F-5E Tiger-2 fighter, which started in 1974.

In Latin America, the US position as the dominant arms supplier has been eroded in favour of the UK and France, and several large orders, particularly for submarines, have been placed with FR Germany.

Venezuela, the region's "oil state", has shown a sharp increase in arms imports during the past decade. Both Brazil and Argentina, the two largest importers in the region, also invest heavily in domestic arms industries. Particular interest is shown in achieving a naval production capacity—Argentina is producing six "Amazon"-class frigates and one Type 42 destroyer under partial British licence. Brazil is producing two "Niteroi"-class destroyers, also under British licence and with technical assistance from the UK.

The position of North Africa as the fourth region according to volume of arms imports is due to the military build-up by Libya alone. Libya has turned to the Soviet Union for arms, while the other three countries remain customers of their former colonial power, France.

In South Asia, India stands out as the largest buyer, depending heavily on the Soviet Union. Most of the arms acquired by India have been on licence from the USSR—notably the MiG-21, including its Atoll missiles. India also produces British and French aircraft and missiles, and is actively engaged in the development of local designs, so far not too successfully. The fighter-bomber HF-24 Marut, begun in 1956, has still not achieved the planned capacity due to design and cost problems with the engine.

In the South Asian region, Bangladesh and Afghanistan also number among the customers of the USSR. Pakistan has purchased most of its heavy equipment from China, but in future other suppliers will take a bigger share of the market—in particular France, with negotiations under way for the local production of the Mirage F-1.

In sub-Saharan Africa, the two former colonial powers—the UK and France—dominated the arms trade market until the early 1970s. During the period 1970–76, the Soviet Union supplied 32 per cent of the region's arms imports, but this share is due mainly to large imports of fighter aircraft and tanks by Uganda, and to large supplies to Mozambique during 1976 alone.

For South Africa, the pattern of arms imports illustrates the effects of the 1963 embargo imposed by the United Nations. This meant that the UK, the former dominant supplier, fell back in favour of France and Italy, which have sold production licences for Mirage fighters and counter-insurgency aircraft. In reality the third largest supplier to South Africa is Israel, which has sold missile-armed patrol boats. (The inclusion of Jordan among the arms suppliers to South Africa is due to only one transaction, which took place in 1974 when Jordan secretly sold its used Tigercat missile system and Centurion tanks via a private company in Liechtenstein. Some of these arms have later appeared in Rhodesia.)

Finally, in Central America, Cuba has since 1960 dominated in arms imports, relying exclusively on the Soviet Union for its major arms. During the past three years Cuba has also begun to export arms: to

Angola in connection with its military and manpower aid during the civil war, and to Peru in 1977 with the delivery of 12 ex-Cuban Air Force MiG-21s.

The pattern of imports

Like the Third World exporters, the importers in this region can be grouped by pattern of arms purchases. The first and most obvious group consists of those countries directly involved in war or in civil war, or visibly close to or threatened by armed conflict at a given time. Examples of such countries are Cuba, Egypt, Ethiopia, India, Iraq, Israel, North and South Korea, Nigeria, Somalia, South Africa, Syria and Viet Nam.

A second prominent group today consists of what might be called the most developed nations in the underdeveloped regions—countries with régimes that strive for regional dominance, such as Brazil, India, Iran and South Africa.

A third category is a more loosely defined group of countries where the decision to build up or to modernize their armed forces is part of a general drive towards industrialization or an expression of every nation's *per se* legitimate demand for "national security". This is, of course, a broad generalization, and in reality there is a certain degree of interaction between the various factors leading to a decision to import a certain type of weapon.

Within the three groups outlined above, two additional factors determining the type and the volume of arms imports are at work—namely, the size of foreign exchange earnings and the interests of the two great powers. Trends in the flow of weapons tend to support the contention that the interests of the leading arms suppliers are the most important single determinant. In addition to the fact that there was no great increase in the number of conflicts, this would explain, for instance, the big rise in arms supplies to the Third World at the end of the 1950s. Several African countries did achieve independence in this period, but the volume of their arms imports was too low to explain the increase. The rise occurred because of the US policy of arming what were known as the "forward defense areas" around the socialist bloc, and because competition between the two great powers intensified as the Soviet Union entered the market in 1955. Until then, the Soviet Union had adhered to a policy of giving military support to socialist régimes alone. But following the general change in foreign policy away from the "two-camp theory" to the "theory of peaceful co-existence", the Soviet Union notably changed its approach towards underdeveloped countries. With the ideological acceptance of a third force, or the non-aligned countries, Soviet arms supplies to the Third World drastically increased.

The impact of industrialized countries' supplier interests is similarly illustrated by the even higher relative and absolute increase in arms deliveries beginning in 1970. With the 1973 oil crisis, the position of the industrialized world *vis-à-vis* the oil-producing countries changed: the big arms-producing nations found that by meeting the oil producers' demands for the most sophisticated armaments, they could somewhat compensate for the negative balance of payments resulting from the increase in oil prices. The difference in supplier policy from the 1950s and early 1960s is simply that *economic* rather than political interests determine the efforts of the supplying countries to export arms.

III. The weapons

The qualitative aspect of the general trend in the spread of arms supplies to the Third World can be expressed thus: during the 1950s the arms exported to underdeveloped nations were in general surplus or obsolete types, or second-hand—that is, the type was sold after having been replaced in some branch of the military in the industrialized country. Moreover, these arms were single weapons, which required little more in the way of spares, support equipment and service than did a civilian product. The sophisticated arms now being developed, produced and traded are not single weapons but rather *weapon systems*, often requiring large additional investments for the buyer in training and education both of operators and technical staff, outside aid in the form of technical and military advisers, a special infrastructure, and perhaps even a reorganization of the structure of the armed forces.

For example, in 1952 South Africa purchased 50 DeHavilland Vampire bombers, all from British surplus stocks, and most of these aircraft had been in service during World War II. At that time this acquisition represented a first step towards equipping a modern air force, although the delivery consisted of only 50 aircraft. The next generation, the French Dassault Mirage-3 that began to arrive from 1963, represented a transition to a weapon system, its capacity being multiplied by the air-to-air and air-to-surface missiles on board. With the advances in the producing countries in the field of missile technology and military electronics, the complexity or sophistication of modern major armaments became a reality.

Aircraft

One indicator of the spread of sophisticated armaments to the Third World is the acquisition of modern combat aircraft, with new capabilities ranging from all-weather types to versions carrying infra-red guided missiles, electronic countermeasures equipment, such miscellaneous equipment as bombs and napalm tanks, and so on. Table 8.5 shows the spread of supersonic fighter aircraft to the Third World since 1960: the criterion of supersonic speed is used to indicate the level of technological sophistication also found in the inventories of the major industrialized arms-producing nations and because nearly all these aircraft produced after 1960 were armed with missiles and such other armaments as cannons, machine-guns, bomb loads and napalm tanks. By the 1970s developments in these aircraft had reached the stage mentioned above—away from a single weapon to a weapon system with an enhanced destructive capacity.

The first two generations of fighter aircraft designed and produced after 1945 were still described by their specific single roles, for example, fighter, fighter-bomber, and so on. In comparison, the most recent ones are described by such dual- and multi-roles as multi-mission fighter and attack, air combat, air superiority fighter and so on. For example, the French Mirage F-1, described as a single-seat, multi-mission fighter and attack aircraft, with a maximum level speed at high altitude of Mach 2.2, carries the following standard weapon system: two 30-mm cannons and one air-to-air missile under each wingtip. For the interception role, the externally mounted weapons include Matra R-530 radar homing, or infra-red homing, air-to-air missiles on underfuselage and inboard wing pylons, and a Sidewinder or Matra 550 air-to-air missile at each wingtip station. For ground attack duties, typical loads may include one AS-37 Martel anti-radar missile or AS-30 air-to-surface missile, eight 450-kg bombs, four rocket launchers with 18 air-to-ground rockets each, or six 600-litre napalm tanks. Externally, the F-1 can also carry auxiliary fuel tanks, photoflash containers and a reconnaissance pod with a SAT Cyclope infra-red system and EMI side-looking radar. The plane also carries advanced electronic equipment for various roles such as a Doppler radar and bombing computer, navigation computer, position indicator, laser rangefinder and terrain-avoidance radar.

However, technological sophistication alone does not signify the complete military capacity of a nation, or the political and military intentions of a particular régime. A breakdown of the types of fighter aircraft delivered to Third World countries does, however, reveal some interesting aspects.[a]

Those régimes which have invested in achieving a conventional air force with a modern strike capacity have largely pursued the same path—varying, of course, according to political orientation towards East or West. The customers of the West first received more or less obsolete fighters and bombers left over after 1945, such as the British Spitfire and Vampire and

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[a] A computerized breakdown by type of major weapons delivered—categorized by both seller and buyer—will in future be available on request from SIPRI.

Table 8.5. The spread of new combat aircraft to Third World countries, 1960-77*[a]*

Country	1960/1961	1962	1963	1964	1965	1966	1967	1968	1969
Taiwan	F-104				F-5A				
Pakistan		F-104						Mirage-3E	
Cuba		MiG-21F							
Egypt		MiG-21F					Su-7		
Israel		Mirage-3						A-4H	F-4A
Iraq			MiG-21F						
India			MiG-21F						
S. Africa			Mirage-3C		Mirage-3E				
Indonesia				MiG-21					
N. Korea					MiG-21FL				
S. Korea					F-5A				F-4E
Iran					F-5A			F-4A	
Philippines					F-5A				
Algeria					MiG-21				
Afghanistan						MiG-21			
Saudi Arabia						Lightning			
Thailand						F-5A			
Ethiopia						F-5A			
Morocco						F-5B	F-5A		
N. Viet Nam						MiG-21			
S. Viet Nam							F-5A		
Syria							MiG-21		
Jordan							F-104		
Peru								Mirage-5	
Lebanon								Mirage-30	
Kuwait								Lightning	
Libya								F-5A	
Sudan									
Venezuela									
Brazil									
Colombia									
Argentina									
Abu Dhabi									
Bangladesh									
Somalia									
Rhodesia									
Zaire									
Nigeria									
Uganda									
Malaysia									
Chile									
Oman									
Ecuador									
Tunisia									
Singapore									
Kenya									
Gabon									

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[a] Excluding second-hand or refurbished aircraft. The new types acquired since 1960, with the year of production start in brackets, include:

Lockheed F-104 Starfighter, USA	(1956)
Mikoyan MiG-21F Fishbed-C, USSR	(1956)
Mikoyan MiG-21FL Fishbed-D, USSR	(1962)
Mikoyan MiG-21MF Fishbed-J, USSR	(1970)
Mikoyan MiG-23B Flogger-C, USSR	(1971)
Dassault Mirage-3C, France	(1960)
Dassault Mirage-3E, France	(1964)
Dassault Mirage-5A, France	(1967)
Dassault Mirage F-1C, France	(1973)
Northrop F-5A Freedom Fighter, USA	(1963)
Northrop F-5B Freedom Fighter, USA	(1964)
Northrop F-5E Tiger-2, USA	(1972)
BAC Lightning, UK	(1959)
Sukhoi Su-7B Fitter-A, USSR	(1956)
Sukhoi Su-11 Fishpot-C, USSR	(1965)
McDonnell Douglas A-4M Skyhawk-2, USA	(1970)
McDonnell Douglas A-4H Skyhawk-2, USA	(. .)
McDonnell Douglas A-4N Skyhawk-2, USA	(. .)
McDonnell Douglas F-4A/B Phantom, USA	(1958)
McDonnell Douglas F-4D Phantom, USA	(1965)
McDonnell Douglas F-4E Phantom, USA	(1967)
McDonnell Douglas F-15 Eagle, USA	(1973)
LTV A-7A Corsair-2, USA	(1965)
LTV A-7D Corsair-2, USA	(1968)
Lockheed P-3C Orion, USA	(1968)
Grumman E-2C Hawkeye, USA	(1971)
General Dynamics F-16, USA	(1976)
Ilyushin Il-38 May, USSR	(. .)
Tupolev Tu-22, USSR	(1961)

1970	1971	1972	1973	1974	1975	1976	1977	On order
				F-5E			E-2C	
		Mirage-5						
	MiG-21MF							
		MiG-21MF		Mirage-3				
		A-4N				F-15	E-2C	F-16
				MiG-23				
	Su-7	MiG-21MF					Il-38	
					Mirage F-1C			
					A-7			
						MiG-23		
				F-5E				
				F-4E	P-3C	F-14A		F-16
		Su-7						
			F-5B	F-5E			Mirage F-1	
								F-5E
							MiG-21	MiG-23
		MiG-21MF	Su-7	MiG-23	Su-11			
		F-5B			F-5E			
						Mirage F-1C		
	Mirage-3				MiG-23B	Tu-22	Mirage F-1C	
MiG-21								Mirage 50
		F-5A	Mirage-3E					
		Mirage-3E			F-5E			
		Mirage-5						
		Mirage-3						
			Mirage-5	Mirage-3E				
			MiG-21MF					
				MiG-21				
					Mirage-3B			
					Mirage-5			
					MiG-21MP			
					MiG-21			
					F-5E			
						F-5E		
						Jaguar		
							Jaguar	Mirage F-1
							F-5E	
							F-5E	
								F-5E
							Mirage-5	

the French Ouragon. From 1953, Rockwell International's F-86 Sabre fighter was found in the Third World inventories and was eventually sold to as many as 13 nations. Taiwan's acquisition may serve to illustrate a typical import curve, starting with F-86Fs armed with Sidewinder missiles in 1954, then the F-104 Starfighter in 1960, followed by Northrop's F-5A Freedom Fighter in 1965, and the F-5E Tiger-2 in 1974, the latter being assembled under licence.

The Israeli inventory includes other of the types most often sold to Third World countries in this period. During the 1950s Israel received old French Ouragons and Mystère 4s, replaced in 1962 by the then considered highly advanced Mirage-3 fighter-bomber. From 1968, large deliveries began of several hundred McDonnell Douglas A-4 Skyhawks and F-4 Phantoms, to be replaced in turn by the new fighters for the 1980s—the McDonnell Douglas F-15 Eagle from 1976 and the General Dynamics F-16 from 1980. The F-16, which eventually won the NATO order in the competition for the "aircraft deal of the century", will also be found in Iran from 1980. In competition with these latest US models, the French Mirage F-1 has won several orders, for example from Kuwait, Libya, Saudi Arabia and South Africa.

The typical sequence for importers turning to the USSR may be illustrated by the case of Syria, which received MiG-15s and -17s during the late 1950s, followed by MiG-21s armed with Atoll air-to-air missiles in 1967 and the more advanced-version MiG-21 MF in 1972, and then the MiG-23 from 1974.

While these aircraft represent the result of a technological arms race among the producers (see table 8.5, above), the Third World customers have also concentrated on acquiring light aircraft, after the Viet Nam War generally referred to as counter-insurgency types.

Large numbers of armed helicopters and armed jet trainers have spread all over the region—among the largest customers are Iran, with over 500 Bell helicopters, and South Africa, where the Italian Aermacchi MB-326 GB/K is produced under licence as the COIN types Impala-1 and Impala-2. The MB-326 GB has also been licence-produced in Brazil since 1971 as the COIN type AT-26 Xavante, and has been purchased by Argentina, Bolivia, Zaire and several other nations. Another Italian plane with a COIN role is Siai-Marchetti's SF-260W Warrior, purchased by Ecuador, Morocco, Thailand, Zaire and Zambia. Among the most popular US COIN aircraft are the Rockwell OV-10 Bronco, and the Cessna A-37, sold during the past five years to Chile, South Korea and Venezuela, among others. Finally the Italian AM-3C and Italian–US AL-60 light planes are used for the COIN role in South Africa. The widespread need for and import of this type of aircraft in Third World countries is of interest when considering their protests in the United Nations against even discussing the registration of the arms trade, arguing that the poor nations in the world need these armaments for self-defence.

Missiles

The second indicator of the advance of military technology is the spread of missile weapon systems to the Third World (see table 8.6). The most widely acquired types during the 1950s and 1960s were the standard systems arming US, French and Soviet fighters, that is, the Sidewinder air-to-air missile, the Sparrow air-to-air missile, the French AS-12 and AS-11 missiles on helicopters and the Matra R-530 on Mirage aircraft, and the Atoll air-to-air missile on the many versions of the MiG-21. The later version of the Phantom fighter, the F-4E, carries, in addition to Sidewinder and Sparrow, the Hughes Maverick air-to-surface missile.

The new generation of air combat missiles for the 1980s so far includes the Hughes Phoenix air-to-air missile for Iran's and Israel's F-16 fighters, and the Rockwell Condor air-to-surface missile. The British BAC Sea Skua air-to-ship missile, arming Lynx helicopters and sold to Brazil among other customers, is another of the new products on the missile market.

The first armoured vehicles equipped with anti-tank missiles began to appear on a large scale in Third World countries from 1962. In particular, many of the Soviet customers have received large numbers of the AT-1, AT-2 and AT-3 systems. The British BAC Vigilant was also widely acquired.

More recent anti-tank missiles incorporate more complex technology, such as the popular Hughes TOW system[9] which can also be used as an air-to-ground system. Iran has purchased a large number, both for infantry use and to arm its Bell AH-1J attack helicopters. TOW was amply demonstrated as a helicopter weapon in Viet Nam—the missile can be fired even at high speeds and still hit the target. It is operated automatically, the gunner's task being only to keep his target in sight by telescope during missile flight. The light source in the missile is tracked by a sensor which measures the angle between the gunner's sight line and the flight direction of the missile. These displacements are transformed by the computer into guidance commands for the missile.

During the 1973 Middle East War, the small portable Soviet SA-7 anti-tank weapon made an impression as a highly lethal and easily handled weapon. It was subsequently used by the guerrilla forces in Angola, Guinea-Bissau, and Mozambique. The new West German–French anti-tank weapons, Euromissiles HOT and Milan, were developed according to the same principles as the SA-7 and have since been delivered to a

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[9] TOW = Tube-launched, Optically-tracked, Wire-guided.

Table 8.6. The spread of missile systems to Third World countries, 1954–77[a]

Country	1954	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77
Israel	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Taiwan	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Pakistan			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Africa			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Philippines				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Korea						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Cuba								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Indonesia								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Thailand								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Afghanistan									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Egypt									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iraq									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kuwait									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
India										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Syria										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iran											x	x	x	x	x	x	x	x	x	x	x	x	x	x
Saudi Arabia											x	x	x	x	x	x	x	x	x	x	x	x	x	x
North Korea												x	x	x	x	x	x	x	x	x	x	x	x	x
Algeria												x	x	x	x	x	x	x	x	x	x	x	x	x
North Viet Nam													x	x	x	x	x	x	x	x	x	x	x	x
Libya														x	x	x	x	x	x	x	x	x	x	x
Peru														x	x	x	x	x	x	x	x	x	x	x
Argentina																x	x	x	x	x	x	x	x	x
Jordan																x	x	x	x	x	x	x	x	x

Qatar	x	x	x	x	x	x	x	x
Malaysia		x	x	x	x	x	x	x
Singapore		x	x	x	x	x	x	x
Sudan		x	x	x	x	x	x	x
Zambia		x	x	x	x	x	x	x
Brazil			x	x	x	x	x	x
Colombia			x	x	x	x	x	x
Brunei			x	x	x	x	x	x
Venezuela			x	x	x	x	x	x
South Viet Nam			x	x	x	x	x	x
Uganda				x	x	x	x	x
Chile					x	x	x	x
Rhodesia						x	x	x
Zaire						x	x	x
Ethiopia						x	x	x
Yemen								x
Ecuador								x
Tunisia								x

[a] Included are land-based fixed and mobile surface-to-ground and surface-to-air systems, air-to-air and air-to-surface missiles on fighter aircraft and on helicopters, and anti-tank, ship-to-ship and ship-to-air missiles.

Source: SIPRI country registers 1950–77.

Table 8.7. The spread of armoured fighting vehicles of post-1945 design to Third World countries, 1950–77[a]

Country	1950	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77
North Korea	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Korea		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iraq				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Burma					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Egypt					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Israel					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Jordan					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Peru					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Venezuela					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Indonesia						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Africa						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Pakistan						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Taiwan						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
India							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kuwait							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Morocco							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Syria							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Cuba								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Lebanon								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Libya								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Tunisia								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Yemen								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iran									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Nicaragua									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Sudan									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Viet Nam									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Afghanistan										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Ghana										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Guinea										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Liberia	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Nigeria		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Rhodesia		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Saudi Arabia		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Somalia		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Sri Lanka		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Togo		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Upper Volta		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
North Viet Nam		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Gabon			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Mali			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Algeria				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Rwanda				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Cameroon					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Malaysia					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Mexico					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Zaire					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kampuchea (Cambodia)						x	x	x	x	x	x	x	x	x	x	x	x	x	x
Oman						x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kenya						x	x	x	x	x	x	x	x	x	x	x	x	x	x
Singapore						x	x	x	x	x	x	x	x	x	x	x	x	x	x
Tanzania						x	x	x	x	x	x	x	x	x	x	x	x	x	x
Zambia						x	x	x	x	x	x	x	x	x	x	x	x	x	x
Brazil							x	x	x	x	x	x	x	x	x	x	x	x	x
Brunei							x	x	x	x	x	x	x	x	x	x	x	x	x
Jamaica							x	x	x	x	x	x	x	x	x	x	x	x	x
Uganda							x	x	x	x	x	x	x	x	x	x	x	x	x
Uruguay							x	x	x	x	x	x	x	x	x	x	x	x	x
Chile								x	x	x	x	x	x	x	x	x	x	x	x
Ecuador								x	x	x	x	x	x	x	x	x	x	x	x
Ivory Coast								x	x	x	x	x	x	x	x	x	x	x	x
Argentina									x	x	x	x	x	x	x	x	x	x	x
Bolivia									x	x	x	x	x	x	x	x	x	x	x

Country	1950	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77
Thailand																		x	x	x	x	x	x	x	x	x	x	x
Democratic Yemen																		x	x	x	x	x	x	x	x	x	x	x
Abu Dhabi																			x	x	x	x	x	x	x	x	x	x
Congo																			x	x	x	x	x	x	x	x	x	x
Mauritania																			x	x	x	x	x	x	x	x	x	x
Qatar																			x	x	x	x	x	x	x	x	x	x
Nepal																				x	x	x	x	x	x	x	x	x
Senegal																				x	x	x	x	x	x	x	x	x
Guyana																					x	x	x	x	x	x	x	x
Laos																					x	x	x	x	x	x	x	x
Bahrain																						x	x	x	x	x	x	x
Haiti																						x	x	x	x	x	x	x
Mauritius																						x	x	x	x	x	x	x
Sharya																						x	x	x	x	x	x	x
Dominican Rep.																							x	x	x	x	x	x
Ethiopia																							x	x	x	x	x	x
Malawi																							x	x	x	x	x	x
Philippines																								x	x	x	x	x
El Salvador																									x	x	x	x
Guatemala																									x	x	x	x
Mozambique																											x	x

* Including the following types: armoured car, tank, main battle tank.

Source: see source to table 8.6.

number of countries. The ship-to-ship or ship-to-air missile systems appeared in the Third World inventories from 1961, one widely sold type being the Soviet Styx missile, arming "Komar"- and "Osa"-class patrol boats. On missile boats sold during the 1970s, the most common armaments are the US Harpoon and the French Exocet. A new product so far sold to Singapore, South Africa and Taiwan is the Israeli-designed Gabriel ship-to-ship missile.

The fixed or mobile land-based anti-aircraft missile systems in a way represent a weapon category of their own. The first such systems introduced in the Third World were the US Honest John and Nike Hercules, delivered to South Korea and Taiwan in 1959. From 1961, the Soviet SA-2 entered the market, beginning in Cuba and Indonesia. Since then practically all Soviet customers have received one or several of the SA-2, SA-3, SA-4 and SA-6 systems. During the 1970s, the Raytheon Advanced Hawk has been sold, particularly in the Middle East, in competition with the South African-financed, French-developed Crotale. The most recent systems introduced in the Middle East also represent the most advanced technology: the US Lance surface-to-surface missile to Israel, and the Soviet Scud to Egypt, Iraq, Libya and Syria, both capable of carrying nuclear warheads and both being long-range systems.

Armoured vehicles

The import of armoured vehicles of post-1945 design is shown in table 8.7. In the breakdown by the categories of main battle tank, light tank and armoured car or armoured personnel carrier, the latter type dominates the army inventories of the Third World customers. Armoured cars are among those weapons which have proved highly useful for internal security roles. The US Ford M-113, the French Panhard car and the Soviet BTR-40/50 are the most common types, along with the British Saracen, Saladin, Ferret, Scorpion and Fox. Comparatively few of those countries listed in table 8.7 have acquired main battle tanks for the conventional warfare role; among these countries are of course the nations which have been or are involved in major conflicts, such as for example Israel and Egypt. The armed clashes between Ethiopia and Somalia in 1977 involved Soviet tanks and armoured cars on both sides, as well as MiG fighters from both air forces.

Some armoured vehicles are produced under licence, for example a development of the British Vickers 37-ton in India, known as Vijayanta, and the French Panhard cars in South Africa. Brazil is one of the very few Third World countries to have put indigenous designs into production —the EE-9 and EE-11 armoured cars, now being sold to Saudi Arabia. The latest models of the M-113 are usually equipped with the TOW anti-tank

Table 8.8. The spread of modern warships to Third World countries, 1950–77[a]

Country	1950	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77
Indonesia	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
India	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Israel	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Africa	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Brazil		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Chile		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Peru		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Venezuela				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Ecuador					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Thailand					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Philippines						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Burma							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Egypt							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iran							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
North Korea							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Pakistan							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Syria								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Taiwan								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
North Viet Nam								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Argentina									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Colombia									x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iraq										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Uruguay										x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Ethiopia											x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Togo											x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Viet Nam											x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Morocco												x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Tunisia												x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Congo													x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Cuba													x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kuwait													x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Ivory Coast														x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
South Korea														x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Madagascar														x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Malaysia	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Senegal	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Algeria		x	x	x	x	x	x	x	x	x	x	x	x	x	x
Cameroon		x	x	x	x	x	x	x	x	x	x	x	x	x	x
Ghana		x	x	x	x	x	x	x	x	x	x	x	x	x	x
Mexico		x	x	x	x	x	x	x	x	x	x	x	x	x	x
Tanzania		x	x	x	x	x	x	x	x	x	x	x	x	x	x
Nigeria			x	x	x	x	x	x	x	x	x	x	x	x	x
Trinidad & Tobago			x	x	x	x	x	x	x	x	x	x	x	x	x
Jamaica				x	x	x	x	x	x	x	x	x	x	x	x
Kenya				x	x	x	x	x	x	x	x	x	x	x	x
Libya				x	x	x	x	x	x	x	x	x	x	x	x
Mauritania				x	x	x	x	x	x	x	x	x	x	x	x
Somalia				x	x	x	x	x	x	x	x	x	x	x	x
Sri Lanka				x	x	x	x	x	x	x	x	x	x	x	x
Brunei					x	x	x	x	x	x	x	x	x	x	x
Liberia					x	x	x	x	x	x	x	x	x	x	x
Niger					x	x	x	x	x	x	x	x	x	x	x
Guinea						x	x	x	x	x	x	x	x	x	x
Abu Dhabi							x	x	x	x	x	x	x	x	x
Saudi Arabia							x	x	x	x	x	x	x	x	x
Singapore								x	x	x	x	x	x	x	x
Oman									x	x	x	x	x	x	x
Panama									x	x	x	x	x	x	x
Qatar									x	x	x	x	x	x	x
Bangladesh									x	x	x	x	x	x	x
Yemen										x	x	x	x	x	x
Kampuchea (Cambodia)										x	x	x	x	x	x
Dubai												x	x	x	x
Bahrain													x	x	x
Laos													x	x	x
Equatorial Guinea													x	x	x
Lebanon															x

* Included are only post-1945 designs, confined to the following combat types: corvettes, aircraft carriers, cruisers, destroyers, fast patrol boats, frigates, gunboats and torpedo boats.

Source: see source to table 8.6.

missile, and generally it can be said that through the developments of new types of ammunition and small arms (high-speed bullets, and so on) the destructive capacity of these types of weapon is by 1977 much superior to that of weapons from the 1950s.

Warships

In general, the navy is the last of the military branches of Third World countries to receive modern equipment of the same type as that of the main naval powers of the industrialized world, for both technical and strategic reasons. In fact, few Third World nations possess a navy at all, that is, with submarines, destroyers and other heavy warships. Those nations which do possess a navy are found primarily in Latin America and the Far East, for example, Argentina, Brazil, Chile, India, Indonesia, Pakistan and Peru, and among the future big naval powers, Iran and South Africa are rapidly investing in such a capacity for the Indian Ocean (see table 8.8). The most common type of warship in the Third World is the fast patrol boat, after 1970 normally equipped with ship-to-ship missiles. Another new type of navy warship is represented by armed hovercraft. Iran now has the world's first, and largest, military hovercraft fleet.

Thus, table 8.8 includes relatively few heavy warships, and most of those destroyers and frigates imported were built before 1945 and then refurbished and modernized. France and FR Germany are the leading exporters of modern submarines, the "Daphne"-class and Type 209. The Soviet Union mostly exports types that were produced during the 1950s and have served some time in the Soviet navies. The first nation to receive a modern missile-armed frigate was Iran, which in 1971 received delivery of the British SAAM-class equipped with two types of naval warfare missile, and Argentina, Brazil and India are the only nations so far capable of producing modern frigates equipped for anti-submarine warfare, all under British licence and with a heavy input of British technical assistance.

IV. Conclusions

The conclusions to be drawn concerning this evermore unlimited, uncontrolled and increasingly commercialized dispersal of weapon systems from the industrialized world around the globe, are as follows:

1. There is no evidence that arms transfers *per se* contribute to national security for the buyer. The reverse may be equally possible.

2. There is no causal relationship between supplies of arms and the creation of political goodwill at the receiving end. Rather the opposite is

true—goodwill between the respective governments may result in arms deals, among other relationships.

3. For poor countries, the investment in major weapons and weapon industries depends mostly on the success of sales campaigns from the producing companies and governmental sales agencies, and results in a drain of the scarce resources needed for civilian economic development.

4. For the producing nations, arms exports are of most importance at the industry level, for the profit and existence of the single enterprise and its work force.

5. If, in future, nuclear weapons also begin to be widely traded, along with their carriers, the uncontrolled transfer of arms may become an even greater danger to world security.

References

1. Nyerere, J., "The Devil's Flunkey", *Far Eastern Economic Review*, 30 January 1971.
2. *The Arms Trade with the Third World* (Almqvist & Wiksell, 1971, Stockholm International Peace Research Institute).
   (a) —, p. 4.
   (b) —, p. 19.
3. Sampson, A., *The Arms Bazaar* (Hodder and Stoughton, London, 1977), p. 14.

STATEMENT OF HON. JOSEPH E. KARTH, PRESIDENT AND GENERAL MANAGER, AMERICAN LEAGUE FOR INTERNATIONAL SECURITY ASSISTANCE, INC.*

Mr. KARTH. Thank you, Mr. Chairman.

I might say, to the members of the committee, that I feel very inadequate on this side of the table. I always viewed those who testified on subject matters, when I sat on your side of the table, as rather inadequate because I had spent so many hundreds of hours listening to testimony and gathered so many points of view, and so much information, and conversed with so many of my colleagues on the matter, and conversed with so many people from the executive branch on the matter, I thought those who appeared on this side of the table were in large part inadequate. This is the way that I feel today.

Mr. Chairman, Mr. Best and I will do the very best we can in bringing to you our views on the current foreign military sales control program, and possibly some suggested changes in that.

Mr. Best, on my right, until March of 1977, as you know, Mr. Chairman, was the chief economist for the Senate Finance Committee, where he served for more than a decade. He is now vice president for the American League for International Security Assistance, and we are very delighted to have him aboard.

Before giving our views, Mr. Chairman, let me briefly describe the American League for International Security Assistance.

ALISA, as we call it, is slightly beyond 1 year old, and that makes it a very young organization, but it is a unique organization inasmuch as it is a labor-management organization currently composed of 3 national and international unions, representing about 3.5 million workers and approximately 30 American corporations engaged in exporting billions of dollars worth of American manufactured goods and services every year.

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*U.S. Congress. House. Committee on International Relations. Subcommittee on International Security and Scientific Affairs. Foreign Assistance Legislation for fiscal year 1979 (Part 2); Hearings. Washington, U.S. Govt. Print. Off., 1978. p. 36-44.

A list of our membership is attached, so we don't have to talk about that.

These companies, which are members of ALISA, employ close to 735,000 Americans in all 50 States plus the District of Columbia. ALISA's principal goal is to encourage exports of American goods and services, in consonance with the security, foreign policy, and economic goals of our Nation.

Before we discuss the conventional arms transfer policy, Mr. Chairman, in which this committee has a great responsibility, we should mention that the members of ALISA are firmly convinced that the United States needs to adopt a national policy that encourages the production and export of American-made goods and services if we are to achieve the goals of: (1) full employment; (2) greater price stability; and (3) protecting the integrity of the dollar.

We strongly believe that America's greatest long-term strength—our industrial base—depends importantly on the high-technology sector where we have maintained our only competitive advantage, and even in some of those areas, Mr. Chairman, competition is becoming very keen, indeed.

On the immediate issue of military exports, Mr. Chairman, ALISA agrees fully with the notion, indeed the law, that the primary purpose of arms sales must be to enhance world peace and national security. We believe that such determinations can only be made on a case-by-case basis. Playing with numbers, Mr. Chairman, year after year, or for that matter day after day, is nothing more than a game. We suggest that it could be dangerous.

In this connection, we agree with the very balanced and thoughtful statement made by Hon. Stephen Solarz of New York on the arms sales issue which reads as follows: I understand he has been quoted on a number of other occasions, but let me quote him once again.

> I have to confess that I am uncomfortable in the presence of those who insist on the simplification of the complex, and who believe that arms sales are either unmitigated evil, or an unassailable good. Arms sales in general, it seems to me, are neither good nor evil. In the abstract they are neither helpful nor harmful to the national interest. But arms sales in specific may be one or the other, and whether they are or not can only be rationally determined on a case by case basis. The ultimate answer, it seems to me, to the problem of arms sales, lies not so much in unilateral restraint, as in multilateral restrictions.

Mr. Chairman, and gentleman of the committee, that statement in a nutshell, summarizes our basic philosophy on arms sales.

We are also fully cognizant of the frustrations which Congress has had for many years with foreign policy made solely by one branch of the Government, or even one or two officials. We are aware of the widespread feeling that during the Nixon-Kissinger era, foreign military sales may have been too facily used in an attempt to curry favor with foreign leaders.

We were here, Mr. Chairman. We know your emotions and feelings because we shared them. Our concern, however, is that out of understandable emotions the Congress may use blunt instruments to swing the pendulum of policy too far in the other direction.

Ceilings or quotas, regional embargoes, legislative vetoes or advanced approvals by 535 members of particular weapon systems to particular countries are not, in our judgment, a rational way for Congress to participate in foreign policy.

We believe that Congress wants to be a willing partner in our Nation's foreign policy, which really must be bipartisan, rather than constantly play the role of the adversary, using legislative vetoes or ceilings to "control" foreign policy.

Frankly, we are puzzled as to why this distinguished committee does not receive on a regular or organized basis the kind of policy briefings, reviews of the geopolitical, economic, strategic forces that are at work, in which your views are genuinely sought on foreign policy objectives, globally, "trilaterally," regionally, East-West, even country by country, if desired.

In the context of our foreign policy, foreign military sales do play a role, sometimes minor, sometimes major, depending on the country and the circumstances and you have a right to understand that role.

There has got to be a way for this committee and the Congress as a whole to play a more constructive part. Perhaps the Executive can give this committee a general outlook on military exports at the beginning of each fiscal year with some elaboration of anticipated security needs of major regions and/or countries, if possible.

This should provide a reasonable opportunity for Congress to understand the program and how prospective sales fit into our foreign policy and our security objectives. We do not think, however, that the Executive should be tied to specific weapon systems or to artificial ceilings.

Security and political situations change dramatically, making it impossible to give more than general parameters of anticipated arms transfer requirements to particular countries. In our judgment recent events have documented this reality.

We suggest that the committee have regular meetings with the Secretary of State and the President if need be to establish the kind of cooperative working relationship that the people of this country deserve from their elected officials.

Mr. Chairman, with all due respect to the Congress—and we were here for 30 years ourselves—we honestly believe this Nation cannot have a foreign policy by legislative veto.

Mr. Chairman, having said that, let us describe in some detail our views on the current arms transfer policy of this country.

Mr. Chairman, we believe that our country's economic well-being, the goals of the Trade Act, as well as the more lofty goals of "foreign policy" and "international security" cannot be well served by the current unilateral restraint program on what are characterized as "arms export."

DEFINITIONAL PROBLEMS DISTORT WORLD ARMS PICTURE

Mr. Chairman, there are important conceptual issues we would like to address at the outset. We feel that the foreign military sales orders do not reflect the level of world arms traffic. Orders reflect future deliveries which may be spaced out over a 5-year period or even longer. We suggest that it is actual deliveries that are the relevant factor because they and they alone reflect actual trade and have immediate impact upon national security.

Moreover, Mr. Chairman, our Government's definition of "arms transfers" includes a large volume of construction equipment, cement, port facilities, spare parts, nonoffensive vehicles, servicing, which while admittedly contribute to security capability, give an overblown picture of actual arms transfers.

It is clear in Mrs. Benson's responses to the chairman's questions that the President was comparing "apples with oranges" when he stated the United States accounts for more than one-half of $20 billion in world arms sales. His advisers are wanting, I think, Mr. Chairman.

Other countries do not count "services," a $3.3 billion item, or construction equipment over $1 billion. Some use deliveries, not orders. Some do not include spare parts. There are simply not enough reliable data to even conclude that we are No. 1 in arms sales. If there is, that is a part of this open government that is being kept a secret.

As Mrs. Benson indicated:

> Soviet trade prices are not a true reflection of the value of Soviet transactions. The estimates of Soviet sales would increase about one-third if, in lieu of Soviet trade prices, the value of Soviet items were computed on the basis of what it would cost to produce those items in the United States.

That is just comparing a basis of cost, Mr. Chairman. That is all.

It is simply not credible to believe that, given the well-publicized gap between Warsaw and NATO Pact countries, in favor of the Soviet side and how extensive are Soviet sales to African, certain Middle East and Latin American countries, that the United States is No. 1 in conventional arms sales. And if we are, it is not a very comfortable No. 1, as so many seem to suggest today. If we are, we ask the simple question, "What is wrong with being No. 1?"

I don't mean that in a facetious way, Mr. Chairman, especially since being No. 1 does, in a very direct way, according to the best calculations of a lot of experts, impinges directly on the security of the country.

In this connection, we understand this committee has requested a comparability study of arms transfers by leading exporters and we applaud that effort. We can't understand, Mr. Chairman, why it has not been done, and made available to you upon request.

Present data on world arms transfers are not only outdated by the time we see them, but are highly misleading, particularly in comparing United States with Soviet transfers. While we have been in SALT negotiations with them for years, Mr. Chairman, we still don't know what their own in-house capability is. Oftentimes, we don't even know what our own is.

We believe strongly that the appropriate intelligence agencies should be able to give the policymakers in government—and we think the American people—current facts regarding who is selling what to whom, and in what quantities, and not just what the United States is selling, and in what quantity.

We believe the goal must be multilateral control, Mr. Chairman, negotiated the way strategic arms control agreements or even trade agreements are negotiated. Indeed, we see evidence that the unintended results of our unilateral restraint is the rapid development of "arms for export" industries in many countries such as France, the United Kingdom, West Germany, Italy, Israel, and even Brazil.

We would like to submit press stories on what is happening in the world arms trade, and they are attached to the statement, Mr. Chairman.

Chairman Zablocki. Without objection, attachment A to the statement will be made part of the record.[1]

Mr. Karth. As an example of what we are talking about, French aircraft sales last year topped $5 billion, and we understand the Mirage orders that have been booked could keep the French manufacturers fully employed for the next 7 years.

We are not complaining. We are merely explaining what the situation is in realistic terms.

In addition to encouraging such developing countries as Brazil to develop arms industries, our unilateral restraint program has given the Soviet Union the opportunity to step into the vacuum we leave in Latin America, Africa, possibly even Turkey, a NATO ally, and other areas.

We see no national security benefit to our Nation or our friends and allies as they turn to the Soviets or others for their arms.

We hope that this committee agrees with us that the goal we must seek can be achieved only if other nations join with us in a multilateral agreement. The goal, Mr. Chairman, is to reduce world arms traffic and not to reduce U.S. arms traffic.

Of course, such an agreement will be difficult to negotiate, but if the goal is worthy, the effort must be made. If a multilateral agreement cannot be reached, we suggest, then a unilateral approach can only be harmful to the U.S. interests. Certainly, that is not our intent.

Our experience with the Latin American countries on arms sales restraints over the past 10 years seems to support this conclusion. This experience was recently documented in a paper prepared by David Ronfeldt and Caesar Sereseres for publication in a book on arms transfers by the Council on Foreign Relations.

The United States is now the sixth or seventh largest supplier of military equipment to Latin America, behind the Soviet Union, France, Germany, Italy, Britain, and perhaps even Israel. Please understand that we are not necessarily complaining about the activities of those countries. We are complaining primarily about our own stupidity.

We do not believe our unilateral restraint program in Latin America has made the region more democratic, more responsive to human rights than they might be if we used arms sales leverage, diplomatically and privately, to achieve these lofty goals as well as the primary goal of international peace and security. We think that we would have a better chance of obtaining them.

When the President acknowledged in the May 19, 1977, statement explaining his new policy that "actual reductions in worldwide traffic in arms will require multilateral cooperation," we had hopes that the administration would use its powers and influence to convince other supplier nations to commit themselves to reduce their arms sales.

To our knowledge, no such commitment or agreements were vigorously sought. In fact, the other supplier countries, such as the

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[1] Numerous newspaper articles which were submitted are retained in the subcommittee files.

U.S.S.R., France and the United Kingdom, Germany, and even Brazil, stepped up their arms sales.

We have talked to them, Mr. Chairman, about exporting nuclear powerplants. We have talked to them about expanding their national economy. Their answers were so sharp and so negative that they publicly reported in the world press. On arms transfers, however, they are being more diplomatic. There has been no public "go to hell" attitude expressed by them publicly.

So the question of multilateral restraint, all we hear are pious hopes. In response to questions submitted by Chairman Zablocki to Under Secretary Lucy Benson on this subject, there were responses like this:

I do hope, Mr. Chairman, that I am quoting out of context, and I wonder how I can because after all the record was made right here before you, and you have the transcript.

Let me quote, as we took it down:

> Other suppliers have been cautious in their responses to U.S. restraint initiatives. They have important economic and political stakes in arms transfers; movement toward restraint will be a difficult and long-term process. No agreements have been concluded as a result of these decisions. Arrangements that might be concluded involve suppliers only, suppliers and recipients, or recipients alone.

The emphasis appearing in the printed copy is ours, Mr. Chairman.

Later, we were candidly told, and again I quote Mrs. Benson:

> The utility of arms sales as a foreign policy instrument is political disincentive to arms restraint. Societal incentives, moral concerns, for restraining military exports are not strong except in the Federal Republic of Germany. There are strong economic disincentives rather than incentives for restraining arms sales. In general arms sales are more critical to the economic viability of domestic defense industries in other supplier states, with the possible exception of the Federal Republic of Germany and the Soviet Union, than in the United States.

Others have publicly praised our restraint efforts and then stepped up their own efforts to get the business. To date we know of no other arms producing country which restrains its exports. On the contrary, they encourage them not only financially, but even with direct government involvement in the negotiations between buyer and seller.

Our industry does not ask the U.S. Government to negotiate FMS or commercial agreements for them. But they do not want the U.S. Government to put insurmountable obstacles in their path so as to prevent them from competing in the international marketplace, in the absence of any agreed-upon multilateral restraint program.

Mr. Chairman, you are familiar with the President's six-point program, so I will not go into that. I will go down to: Ceilings are wrong in principle and practice.

First, should there be an artificial ceiling? We strongly urge that the answer be "no," for if a sale is clearly bad, then stop it. If it is good, then let it be. The ceiling may make for an interesting numbers game, or even a more interesting political game. I know how politics are played, Mr. Chairman. For half of my lifetime I have served in elected public office.

The numbers game, in our judgment, can serve no useful purpose. In fact, the numbers game most always becomes a dangerous one. Nearly everyone tries to outbid the other. I don't know who wins. Unintentionally, but irreparable damage can be the result. It can create devastating internal ethnic battles of major proportions, and these in themselves can be extremely dangerous to our own national security, and certainly dangerous to the international peace.

These should not be allowed to divide the American public which may result in an adverse effect on our national security, as I have suggested.

The ceiling approach assumes that all legitimate good sales will be accommodated in any given year. How can that be, Mr. Chairman? Arms needs vary from year to year, according to changing political and security circumstances. Even our own do that, Mr. Chairman.

The ceiling for weapons and weapons-related items is set at $8.6 billion for fiscal 1978. There are already commitments for over $5 billion. It is not clear where the Middle East package fits into the ceiling.

The ceiling will quickly become a floor as our friends and allies will ask promptly for our security assistance in the form of arms sales. Does the President keep everybody dangling for 11 months in fiscal 1978 while his accountants try to squeeze these requests down to $3.8 billion or whatever the noncommitted portion of the ceiling is.

If so, we feel the buyer will seriously question our friendship and security commitments and turn to other suppliers. If we hit the ceiling before the year is out and a friend like Israel, or Egypt, or Greece, or Turkey, wants and needs more new equipment, what is the alternative?

Do we say: "Sorry, we have a ceiling imposed by law," or do we say: "We will try to change the law." Or do we say: "We will exempt you."

Any way you look at it, the ceiling puts you in a bind. And if in this fast-moving world the security needs are urgent, what do you do with a ceiling?

You might say, well we are not oblivious to these facts. We will make the ceiling flexible. Fine, but how? Do you exempt certain countries and not others? Or by weapon systems? We suspect when you examine it, you will find that ceilings are inappropriate, if not completely inoperable.

You might say, we will have a ceiling, but give the President the power to waive it for national security reasons. That compromise strikes us as somewhat ironic. We honestly do not see that a self-imposed ceiling on arms transfers is a realistic and administratively practical goal in the interest of U.S. foreign policy.

Mr. Chairman, the remainder of our statement critiques the President's six points. We will not impinge on the time of the committee to read it, but we would hope that it would be made a part of the record, as if read.

STATEMENT OF MICHAEL T. KLARE AND MAX HOLLAND ON BEHALF OF THE ARMS SALES SUBCOMMITTEE OF THE COALITION FOR A NEW FOREIGN AND MILITARY POLICY BEFORE THE SUBCOMMITTEE ON INTERNATIONAL SECURITY AND SCIENTIFIC AFFAIRS COMMITTEE ON INTERNATIONAL RELATIONS, HOUSE OF REPRESENTATIVES*

POSITION PAPER AND CONGRESSIONAL TESTIMONY

Introduction:

The Carter Administration has repeatedly warned that unconstrained arms sales constitutes a threat to world peace. Recognizing that the United States accounts for over half of the $20 billion annual turnover in the world arms trade, the Administration has also acknowledged a special responsibility to take the leadership in reducing this trade. Secretary of State Cyrus Vance has noted that Washington would seek to obtain the cooperation of the other major weapons producers in its effort to restrain the arms trade, but affirmed that "as the largest seller of arms," the United States has "a particular responsibility to first put our own house in order."

The need for a complete and rigorous "housecleaning" in the area of arms sales is manifest. U.S. military exports under the Foreign Military Sales (FMS) program have risen from an average of $500 million per year in the 1950's and early 1960's to nearly $12 billion annually over the past six years (Fiscal 1974-1979.) Even more worrisome is the fact that more and more of these arms are going to the underdeveloped countries of the Third World, and particularly to countries located in potential combat zones. In more than one case, U.S. weapons have been used by the armies of both sides in local conflicts. Using the liberal credit terms available through the FMS credit program, many of the world's poorest countries are obtaining America's most advanced and potent weaponry.

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*U.S. Congress. House. Committee on International Relations. Subcommittee on International Security and Scientific Affairs. Foreign Assistance Legislation for Fiscal Year 1979 (Part 2): hearings. 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 125–155.

Despite Secretary Vance's pledge to "first put our own house in order," there is no evidence that the Administration is really committed to an arms restraint policy. President Carter's policy statement of May 19, 1977 contained some sound and reasonable principles, but the many exceptions and waivers he introduced have rendered the whole meaningless. As we shall show, many of the guidelines proposed by Carter have already been violated, and there is every likelihood that the others will be too. Clearly, if there is to be any real reduction in the flow of U.S. military hardware to other countries, the impetus to do so will have to come from outside the White House. Congress, which has a historic responsibility to regulate the arms trade, will have to develop new legislation to replace the inadequate and confused statutes which now govern this activity.

This document is intended both to isolate the problems requiring Congressional attention, and to suggest a set of principles for meaningful action. Because we feel that the arms trade per se is inextricably linked to all other forms of military exports--including Military Assistance Program grants, military training, and military technical assistance--we have attempted to develop a comprehensive set of constraints.

Our statement is composed of four related sections: Part I is a listing of our major concerns regarding U.S. military exports; Part II contains a description and critique of President Carter's announced arms sales policies; Part III contains an evaluation of the Arms Export Control Act of 1976 and other legislation governing U.S. military exports; and Part IV contains a set of principles for a comprehensive and effective military export policy.

Part I: A Statement of Our Concerns:

Because the arms trade is actually composed of many elements--arms sales, military training, arms co-production agreements, technical assistance programs, etc.--and since military sales programs are inextricably linked to other forms of military transfers, we have attempted to view this issue as a multi-dimensional problem requiring action on a broad variety of fronts. To facilitate this process, we have identified 18 problem areas requiring special attention:

1. Volume: U.S. arms sales have risen at an astronomical rate over the past few years. Arms orders under the U.S. Government's Foreign Military Sales program have risen from an average of $532 million per year in the 1950's and early 1960's (F.Y. 1950-66) to an average of $11.8 billion per year over the past six years. (F.Y. 1974-79.) Total orders since 1972 and including estimates for this year amount to $79 billion, or five times the amount for the preceding 20 years. Even if FMS orders decline somewhat over the next few years, actual arms deliveries will continue to rise, since deliveries normally lag behind orders by several years. Actual deliveries under the FMS program have risen from $393 million per year in the 1950's and 1960's to $3.3 billion

in F.Y. 1975, $5.3 billion in F.Y. 1976, and $6.9 billion in F.Y. 1977. And, since total orders at the end of F.Y. 1977 stood at $71 billion and deliveries had only reached $31.8 billion, the undelivered balance now stands at an unbelievable $39.2 billion. Furthermore, direct arms exports by U.S. corporations under the so-called Commercial Sales program are also rising: from $100 million annually in the 1950's and 1960's to $930 million per year in the mid-1970's. And, despite everything President Carter has said about controlling the conventional arms trade, U.S. arms exports in all of these categories is likely to remain at these high levels, or rise to higher levels in the years ahead.

2. Direction of Arms Exports: Whereas prior to 1970 most U.S. arms were sold to NATO and such industrial countries as Japan, Canada, and Australia, most U.S. arms are now going to the underdeveloped countries of the Third World, and particularly to the oil kingdoms of the Persian Gulf region. FMS orders to Third World countries have risen from about $180 million per year in the 1950-65 period, during which time they comprised about one-third of total U.S. sales, to $6.7 billion per year in the mid-1970's (F.Y. 1973-75), when they constituted 80% of all such sales.

3. Sophistication: Not only is the U.S. selling more arms than ever before, it is also selling more sophisticated weapons than ever. In 1965, the U.S. had sold supersonic aircraft to

only 4 countries; by 1976 that figure had increased to 25, and is rising rapidly. A similar pattern holds for exports of advanced U.S. guided missiles, precision-guided munitions ("smart bombs"), and warships. Iran, for instance, is slated to receive some of the most advanced weapons in America's own arsenals, including the F-14 and F-16 fighters, the E-3 AWACS radar surveillance plane, the "Spruance" class destroyer, and the "Maverick"and "Phoenix" guided missiles. All this means that Third World countries are acquiring the capacity to fight wars at ever-increasing levels of violence and destruction.

4. Local Arms Races: Although arms deliveries may not be the cause of a local conflict situation, they can often exacerbate a dispute and even ignite a war. This is because any party in a dispute will feel threatened when its rivals acquire new and more advanced arms, and will thus seek to compensate by acquiring still more arms of its own. Such dynamics naturally lead to a local arms race (as in the Middle East) and can trigger a war when one side feels it has a temporary advantage or feels that the other side is about to gain such advantage due to pending arms deliveries. The activities of U.S. arms merchants in promoting weapons exports contributes to this climate of competition and suspicion by encouraging each side to a quire more sophisticated weaponry than its rival.

5. Arms Technology Sales: Not only is the U.S selling more arms than ever, it is also increasingly selling the technical skills to produce arms. This involves the licensing of U.S. arms for

production by foreign producers, or co-production ventures involving joint production of U.S. arms by American and foreign firms. In some cases, U.S. firms are building entire new weapons plants from scratch in Third World countries desiring their own arms industries. Iran, Taiwan, South Korea, the Philippines, Israel, Argentina, Brazil, Turkey, Greece, and Pakistan are some of the countries which have acquired U.S. arms-making technology. Obviously, this process increases the war making capabilities of these countries, while diminishing the chances for conventional arms control. And, since many of these countries have or intend to enter the arms market on their own, it will greatly increase the number of sources potential belligerents can turn to for arms.

6. Technical Military Services: Besides selling weapons and the technology to produce them, America is also selling a wide variety of technical military services. Since many Third World countries lack the trained personnel to maintain, service, and operate the new high technology arms they are acquiring, they are increasingly hiring foreign specialists to provide training, maintenance, computer services, technical support, etc. In Iran, for instance, the Senate Foreign Relations Committee estimates that there are now as many as 25,000 American technicians involved in military-related service work, and that the total could rise to 60,000 by the 1980's. The proliferation of these "white collar mercenaries" poses a new set of concerns regarding U.S. foreign policy, since these Americans would inevitably be involved in future hostilities involving the nation they

worked for, and thus could trigger direct U.S. involvement in a conflict which it should stay out of. Also, the involvement of so many American military personnel--whether or not they wear a U.S. military uniform--will be regarded as an American commitment of support, even if Congress has not debated and approved such a commitment.

7. Human Rights and the Repression Trade: Although most of the high-priced items in the U.S. arms catalog are intended for use in conventional military engagements, a significant portion of U.S. arms exports consists of weapons and surveillance gear for use in internal security and police operations. And despite all that has been said about America's commitment to the promotion of human rights abroad, many of these weapons are going to some of the world's most repressive regimes. Examples include sales of "MACE" to Brasil, V-150 armored cars to Haiti, Indonesia, Thailand and the Philippines, gas masks and riot grenades to Iran, OV-10 "Bronco" counterinsurgency planes to Indonesia, Thailand, and the Philippines, and target spotter planes to Rhodesia. Most of these sales are conductd through the Commercial Sales program, which rarely comes under Congressional purview and is largely removed from public inspection.

8. "Grey Area" Sales: Although no weapons or "implements of war" may be exported from the United States without a license provided by the Office on Munitions Control (OMC) of the Department of State, many items of obvious military utility--such as computers, cargo planes, and radar sets--are being shipped to the military

forces of embargoed nations through Commerce Department channels. Such items, which typically have dual civilian and military use, are not on the U.S. Munitions List and thus are not subject to the safeguards--limited as they are--built into the OMC's monitoring process. Research suggests that such "grey area" sales have contributed significantly to the military capabilities of such countries as South Africa, Rhodesia, and Chile which are nominally prohibited from receiving U.S. arms.

9. Nuclear-capable Arms: Although some efforts are being made to inhibit the proliferation of nuclear weapons technology to the non-nuclear powers, no restraints have been imposed on the sales of aircraft and missiles which have a nuclear-delivery capability, such as the F-4 "Phantom" fighter-bomber, the "Lance" surface-to-surface missile, and the P-3 "Orion" maratime patrol plane. Many of these nuclear-capable weapons are being sold to countries like Argentina, Iran, and Taiwan which may soon have such a capability.

10. Cruel and Inhumane Weapons: Naturally the sale of any weapon can lead to unnecessary bloodshed and suffering, but some weapons should be singled out for especially tight controls because they produce injury in a particularly vicious and torturous manner. Such weapons include napalm and antipersonnel fragmentation bombs, whose use in Vietnam produced worldwide protests. Since Vietnam, the use of these weapons has spread to other areas, including Ethiopia and the Middle East. The

use of these weapons has been banned in a draft protocol adopted by many of the nations of the world at the Diplomatic Conference on Humanitarian Law in Geneva in July, 1977, and their sale should be prohibited.

11. Retransfers: Many countries which are now receiving advanced weapons from the United States or other major powers are trying to sell their older U.S.-supplied arms to those Third World countries which cannot afford to buy brand-new armaments. Such "retransfers" of U.S.-supplied arms can lead to an uncontrolled, "black market" arms traffic which would contribute to the arms buildup in the poorest parts of the world while allowing the more ambitious Third World powers to acquire still more advanced weapons.

12. Payoffs, Promotion, and Advertising: As in the case of civilian products, producers of arms--whether governments or private firms--have employed a wide range of marketting techniques to stimulate demand for their products abroad. Such efforts normally include advertising in international journals, participation in the Paris Air Show and other trade expositions, and government-sponsored demonstration tours of particular items. In some documented cases, these efforts have also included bribery and the use of overseas "agents" to generate unwarranted sales. Such activities are often designed to produce a feeling of insecurity or inferiority in the target country, and thus lead to purchases which otherwise would not have taken place.

13. Military Training: Experience suggests that the provision of military training to foreign personnel--whether through the Foreign Military Sales or Military Assistance Programs-- is closely linked to the militarization of many Third World governments. In many cases foreign trainees are exposed to advanced weapons during their stint at U.S. training bases and schools, and thus develop an appetite for modern arms not presently included in their nation's arsenals; thus, when they return to their homeland, they often lobby for the purchase of such weaponry. U.S. training also contributes to the proliferation of military skills--including repression and counterinsurgency techniques--to Third World governments and thus tends to accelerate the trend towards military governments that we are witnessing in many parts of the world.

14. F.M.S. Financing: Since most Third World nations outside of the OPEC bloc cannot afford to pay for advanced weapons systems, the Department of Defense has developed a variety of credit and financing programs to facilitate arms purchases by the poorer nations. Since these programs often involve the provision of credits at less that the current commercial rate, they represent an invisible U.S. taxpayers' subsidy to the arms industry. Furthermore, inasmuch as they permit purchases by nations which would otherwise be incapable of purchasing modern weapons, they contribute to the arms buildup in the Third World.

15. Secrecy: Although Congress has made several efforts, particularly in the passage of the Freedom of Information Act (FOIA) to increase the amount of information available to the public

on U.S. government programs, including the FMS program, numerous exemptions to the FOIA and other acts make it extremely difficult to monitor U.S. arms deliveries. The information blackout is particularly significant in the area of Commercial Sales and "grey area" sales via the Commerce Department. Since these channels often involve sales of police and repression technology to authoritarian regimes, it is essential that such secrecy be abolished.

16. The Need for Control: All of these concerns suggest a need for a much tighter system of controls and oversight over U.S. military sales abroad. Such controls should be uniform, comprehensive, and airtight. Their operation, moreover, must be open to public scrutiny in order to prevent abuse or mismanagement.

17. Overdependence of the Arms Industry on Foreign Military Sales: Advocates of increased U.S. military sales abroad often argue that such exports contribute to the economic well-being of U.S. corporations and thus produce jobs and community revenues. In fact, the evidence suggests that America's overblown military-industrial infrastructure has depleted and distorted the civilian economy, while producing fewer jobs than comparable spending in the public sector. Inasmuch as foreign military sales help sustain otherwise redundant arms factories, they help retard the development of a sound domestic economy and thus, in the long run, discourage the creation of jobs.

18. Perversion of the "National Security" Mission: U.S. arms sales abroad are normally justified on the grounds that they contribute to the self-defense capabilities of U.S. friends and allies.

Yet, the evidence suggests that foreign buyers of U.S. arms are often motivated more by their own aggressive or imperial ambitions rather than by any commitment to peace and mutual security. Thus the Shah of Iran, America's leading arms customer, has announced his intention to recreate the "Great Persian Empire" of the past, and other U.S. arms recipients--including Turkey and Indonesia--have employed their American-supplied weapons to annex territories in violation of international law. Furthermore, many of the arms going to Third World military regimes are intended for internal use against political dissidents rather than, as avowed by Washington, for external security.

Part II: A Critique of Carter's Arms Sales Policies:

Early in his campaign for the presidency, Jimmy Carter promised to make the control of U.S. arms sales a top priority of his administration were he to be elected. On June 23, 1976, in his first major foreign policy address, he told the Foreign Policy Association in New York that, "I am particularly concerned by our nation's role as the world's leading arms salesman." Rejecting the notion that arms exports can contribute to peace, he insisted that the United States cannot be "both the world's leading champion of peace and the world's leading supplier of the weapons of war." On these grounds, he vowed that, "If I become President, I will work...to increase the emphasis on peace and to reduce the commerce in weapons."

Carter reiterated this pledge after taking office as President. Then, on May 19, 1977, he announced that he had adopted a new "policy of arms restraint" governing military exports, and that he had ordered the relevant government agencies to develop new operating procedures in conformity with this policy.

The fundamental change in U.S. export policy instituted in the May 19th guidelines, Carter indicated, was that "the United States will henceforth view arms transfers as an exceptional foreign policy implement, to be used only in instances where it can clearly be demonstrated that the transfer contributes to our national security interests." We will continue to provide arms in furtherance of U.S. and allied security, he explained, "But, in the future, the burden of pursuasion will be on those who favor a particular arms sale, rather than those who oppose it."

Carter then went on to list a series of guidelines presumably designed to implement the principles ennunciated above. However, in listing these guidelines, Carter first announded a number of waivers and exemptions which severely degrade the impact of his policy. These are:

1. The new controls would not apply "to countries with which we have major defense treaties (NATO, Japan, Australia, and New Zealand.)"
2. In implementing the new policy, we will "honor our historic responsibilities to assure the security of the state of Israel."

3. The new controls were to be binding "unless extraordinary circumstances necessitate a Presidential exemption, or where I determine that countries friendly to the United States must depend on advanced weaponry to offset quantitative and other disadvantages in order to maintain a regional balance."

These exemptions greatly reduce the scope and effectiveness of the new guidelines. Over the past three years, (F.Y. 1976-78), the NATO countries and the exempted Pacific powers accounted for a full 25 percent of all U.S. arms sales under the FMS program. Next, by retaining a presidential waiver in "extraordinary circumstances" or when the president--and the president alone--determined that a dangerous imbalance existed abroad, Carter provided himself with a rationale for violating the new guidelines when he saw fit to do so--a rationale he has already employed on a number of significant occasions (i.e., in the case of the AWACS sale to Iran.) These exemptions, as well as the other provisions containing waivers, call into question the overall value of the new guidelines.

1. Volume: Carter called for a reduction in the dollar volume of new commitments for weapons sales under the FMS program, using F.Y. 1977 as the base year. However, this reduction is not to include services under the FMS program, nor does it include weapons exported through the Commercial Sales program. Since these two categories account for about 40 percent of all U.S. military exports, their exemption further reduced the impact of the proposed reduction. Indeed, Administration figures

suggest that because of a substantial rise in military service contracts, U.S. military exports will actually rise in F.Y. 1979, (to an estimated $13.2 billion), despite an 8% reduction in hardware sales to the non-exempt nations.

2. Sophistication: The United States "will not be the first supplier to introduce into a region newly-developed, advanced weapons systems which would create a new or significantly higher combat capability." If followed, this principle would help check the spread of high-technology arms to Third World areas. However, by invoking the waivers noted above, Carter has already violated this principle by authorizing sales of the AWACS radar plane to Iran.

3. Export-oriented Production: Carter banned the sale of advanced weapons to foreign countries in advance of their operational deployment with U.S. forces, and also prohibited the development or modification of advanced weapons systems solely for export. Here again, Carter has diluted basically sound principles by allowing Iran to order the AWACS prior to its deployment with U.S. forces, and by allowing Northrop to open negotiations with several NATO countries for the sale of a modified version of the F-18 aircraft.

4. Co-production: No new agreements for the co-production of major U.S. weapons will be permitted, although overseas production of some types of components and spare parts will be allowed. This ban does not, however, include NATO and Japan, which account for about three-fourths of all FMS-sanctioned co-production

projects, nor does it extend to licensing arrangements under the Commercial Sales program, which covers many of the co-production projects undertaken by Third World nations.

5. Retransfers: Carter served notice that the United States "may stipulate that we will not entertain any requwets for retransfers" in the case of "certain weapons." In the absence of any further information on the conditions under which such stipulations would be imposed, it is impossible to assess the effectiveness of this principle.

6. Promotion: New regulations are to be devised requiring arms producers to seek advance approval from the State Department before approaching foreign governments for the purpose of soliciting new orders. Also, U.S. embassy and military personnel are not to actively promote the sale of arms abroad. If enforced, such regulations might discourage some of the more aggressive promotional activity of U.S. arms merchants and their Pentagon allies, but if, as has so far been the case, it is only loosely followed, its effect will be limited. Furthermore, this measure is not being interpreted to preclude U.S. participation in arms exhibits like the biennial Paris Air Show or the placement of military advertisements in international journals.

7. Human Rights: In implementing these guiedelines, Carter promised to "continue to promote and advance respect for human rights in recipient countries." This is an empty promise, since

it does not commit the Administration to any specific acts in penalizing human rights violators. Indeed, Carter has failed to halt the flow of police weapons and repressive technology to authoritarian regimes under the Commercial Sales program even when he has called for a cutoff of military aid and FMS credits on humanitarian grounds.

Having examined and evaluated what is covered by Carter's new arms policy, it is important to consider what is not covered.

The first and most glaring commission is a serious commitment to reducing U.S. military sales abroad. For, when all is said and done, Carter's new guidelines will not make a significant dent in the outflow of U.S. arms, equipment, and services, Indeed, as we have seen, the total volume of U.S military exports is likely to rise even if there is a slight decline in some categories. Similarly, the new policy does not appear to reflect a serious intention to reduce the flow of sophisticated arms to Third World countries, or to halt the trade in repression technology to consistent human rights violators.

On the many issues raised in Part I, Carter has practically nothing to say. He has specifically exempted technical services from the new guidelines, so this category will continue to grow without significant oversight and control. Nuclear-capable arms, and cruel and inhumane weapons are reportedly subject to tighter review procedures than other exports, but there is no official policy of restricting such sales. Grey area sales are not covered by the new guidelines, and there is no evidence that the Administration plans to extend the International Traffic in Arms Regulations (ITAR) to cover these items.

On some of the more fundamental issues--secrecy, FMS financing, the lack of adequate export controls, the overdependence of the economy on arms production, and the perversion of the national security mission--Carter merely upholds the status quo. Since these five factors--and particularly the last two--are the driving force behind the surge in arms sales, it is obvious that the new guidelines will have little more than token effect. If, as Carter promised, the goal was to impose a "policy of arms restraint," he would have had to confront these underlying issues and take some steps to reduce the nation's economic and political dependence on arms exports; having failed to do so, however, his guidelines amount to a policy of "business as usual."

Part III: A Critique of Legislation:

There are few rivals to the secrecy which enshrouds the U.S. arms sales bureaucracy. With the exception of the intelligence agencies, this bureaucracy has relied more consistently on secrecy and lack of Congressional oversight to keep its program running than any other executive agency. Essentially this bureaucracy--which includes elements of the State, Commerce, and Defense Departments--has operated on the thesis that "unless Congress expressly prohibits us from doing this than we have the authority to do it." Congress could probably close many loopholes by making it clear that all executive branch activities relating to arms sales and all methods of transferring arms not expressly authorized by the law are prohibited.

Secrecy and the free-wheeling attitude of the past have led to a long train of abuses in the promotion, negotiation and financing of arms deals. This pattern has forced Congress to try and patch up the laws governing arms transfers year after year. There have been three major pieces of legislation concerning arms exports--the Foreign Assistance Act of 1961, the Foreign Military Sales Act of 1968,and the Arms Export Control Act (AECA) of 1976. Together these acts contain more than 50 outright prohibitions against executive decisions, and require more than 30 separate reports to help Congress monitor executive branch activities. Nevertheless, these prohibitions and reporting requirements are so outmoded and often useless that the result is continued secrecy and increasing arms sales. For Congress to exercise its Constitutional role, and for arms exports to decrease, all legislation which governs these sales must be tightened and consolidated.

A critique of existing legislation in relation to our specific concerns raised in Part I follows:

1. Secrecy and Reporting Requirements: More information generally has become available since the passage of the Arms Export Control Act, but in some respects the secrecy enshrouding arms sales has become worse. Prior to 1976, under Section 414(e) of the Mutual Securities Act of 1954, the State Department was required to provide Congress with a weekly report of commercial licenses issued in excess of $100,000 for the export of items on the U.S. munitions list. The Arms Export Control Act

repealed this provision in favor of a quarterly report which only lists licenses in excess of $1 million. More disturbing is the fact that the AECA put a veil of secrecy around Commercial Sales, making them exempt from disclosure under the Freedom of Information Act (through Section 38(e) which extends the confidentiality provisions of Section 7(c) of the Export Administration Act of 1969.)

There are other problems with the reporting requirements as well. Congress receives its information about arms sales three main ways: from the often incomplete Security Assistance Congressional Presentation Document, which comes out when the annual authorization/appropriation process begins; through the quarterly reports required by Section 36 of the AECA; and through the notification of proposed arms sales, also required by Section 36, which arrive almost weekly during each session. All too often, however, the sales estimated in the CPD bear little resemblance to the notifications which arrive during the fiscal year. Last year's CPD estimated Korea would make new FMS agreements totaling $305 million; the actual total was $654 million; likewise sales to Iran were estimated at $4.2 billion, but the actual total was $5.8 billion.

2. Congressional Veto Power: Section 36 of the Arms Export Control Act requires the President to notify Congress about FMS sales of major defense articles in amounts over $7 million, or any

FMS sales in excess of $25 million (includes co-production agreements.) By an informal agreement, the executive branch informs Congress about the proposed sale 20 days before it officially submits the notification; thereafter, Congress has 30 calendar days in which to disapprove the sale by concurrent resolution. Nevertheless, even with a 50-day lead time, it is unlikely that Congress can ever get a sale canceled that already has been negotiated and has the full backing of the President along with the State and Defense Departments. So far Congress has only succeeded in slightly modifying the terms of some sales.

Moreover, this disapproval power does not apply to Commercial Sales of defense articles or services, to technical assistance, or to manufacturing licensing agreements.

3. FMS Financing: A little noticed provision contained in the Foreign Assistance Act of 1974 has made it possible for the Federal Financing Bank, an agency within the Department of the Treasury, to participate with less developed countries in arms sales on credit. The FFB was formed in 1973 with no thought of it participating in arms sales--its function was to coordinate domestic federal borrowing in a manner least disruptive of private financial markets and institutions. Its participation in arms sales has meant that the terms of sale for arms have often been more leniant than those offered by the U.S. Ex-Im Bank for the export of American tractors, for example. Moreover, because it only takes a $1 million appropriation to finance

a $10 million credit sale FMS credits compete unfairly with other priorities in the federal budget and while putting U.S. borrowers at a competitive disadvantage in the credit markets.

4. Arms Technology Sales: Legislation controlling arms technology sales is in disarray. The terminology is confused and often missing from significant provisions of the law; there is also no clear statement of policy. There are three kinds of technology transfers (co-production agreements, manufacturing licenses and technical assistance) and legislation governing third-country transfers or reporting requirements of these technologies is inconsistent. Moreover, what reports are required often do not give the total value of the items to be produced but only the costs of the agreement to the foreign purchaser. (See sections on third-country transfers and reporting requirements.)

5. Third-Country Transfers: With the passage of the 1977 International Security Assistance Act, Congress gave itself a veto power over transfers of U.S. co-produced arms to third countries. However, there is no such provision for congressional review of third-country transfers of items or services provided to a foreign country under manufacturing licenses or technical assistance agreements.

6. Sophistication: There is one provision in the law which prohibits or limits the sale of sophisticated weapons.

Section 4 of the Arms Export Control Act states that no U.S. government credits or guarantees may be used to finance sales of sophisticated weapons to any underdeveloped countries besides Greece, Turkey, Iran, Israel, Taiwan, the Philippines and Korea. The President, however, may waive this prohibition if he reports to Congress that "such financing is important to the national security of the United States." Of course there is a wider loophole than this presidential waiver--section 4 says nothing about cash sales of sophisticated weapons.

7. Human Rights and the Repression Trade: Section 660 of the Foreign Assistance Act prohibits funds appropriated by Congress from being used to provide training or any financial support for police, prisons or other law enforcement forces abroad. As a 1976 GAO report pointed out, however, the Pentagon has interpreted this provision to mean that assistance may continue to facilities or units which aid or perform law enforcement operations as part of their regular duties. Indirect aid to internal security forces now occurs in four ways, according to the GAO: through U.S. support of facilities used by foreign military and police units; through rotation of U.S - trained personnel; through support of dual-purpose units; and through aid to countries under martial law. Moreover, Section 660 does nothing to stop sales--especially through commercial channels--to police forces in countries with serious human rights problems.

8. Redistributed MAP: Although Congress has declared that all MAP grant aid shall cease by 1980, loopholes in the law will make it possible for less developed nations to receive grant aid long afterwards with little or no congressional review. According to the Pentagon, Section 505 of the Foreign Assistance Act gives them the authority to "redistribute" MAP aid, that is, transfer MAP-supplied equipment from the original recipient to another country. The Pentagon need not seek congressional approval for these transfers because no new appropriations are needed. Although the amounts of weapons transferred under this program are often small, there is considerable room for abuse. In fiscal 1976, for example, MAP to the Philippines as appropriated by Congress totaled $17.6 million. But the Philippines received an additional grant of $32.9 million worth of weapons, including trainer jet aircraft, medium landing ships, rifles, grenades and bombs under the redistributed MAP program.

9. Nuclear-capable Arms: Section 669 of the Foreign Assistance Act prohibits U.S. security or economic assistance to any country which acquires nuclear technology without agreeing to safeguards under the International Atomic Energy Agency. Ironically, there are no provisions which inhibit the sale of nuclear-capable weapons, nor are there any prohibitions against using U.S.-manufactured missiles or aircraft to deliver nuclear weapons.

10. Payoffs, Promotion and Advertising: Congress has recently passed an anti-bribery law designed to curb the kinds of abuses which

resulted in the Lockheed scandal. Stiffer laws are needed, however, to prevent other forms of arms promotion which stimulate unnecessary weapons purchases abroad.

Part IV: Objectives of a New Military Exports Control Policy:

As the foundation of a new military export control policy, we propose the following measures:

1. Ceiling: An immediate ceiling of $8 billion per year on all U.S. military exports, including FMS sales, Commercial Sales, Military Assistance Program grants, redistributed MAP aid, training and maintenance contracts, and International Military Education and Training Program grants. This ceiling is to be reduced by at least 10 percent per year. At the same time, the State Department should conduct an active diplomatic campaign to induce other arms producers to restrain their own exports. (Exception to the ceiling: arms co-producers with the NATO countries for joint use by U.S. and other NATO forces.)
2. Sophistication: Sales of sophisticated weapons systems to underdeveloped countries are prohibited unless the President determines that such sales are essential to U.S. security and the Congress votes its formal approval.
3. Embargo to Conflict Zones: Sales or deliveries of major combat equipment to belligerents in a local conflict are prohibited, unless the President determines that such exports are essential to U.S. security and the Congress votes its formal approval.

4. Congressional Oversight and Approval: All military sales (including FMS sales, Commercial Sales, technical service contracts) over $7.0 million must be submitted to Congress, which shall have 30 working days to veto the sale by vote of either house. All such sales of $100 million or above shall require a formal vote of approval by both houses before they become valid.

5. Co-production: All co-production and licensing agreements for the overseas manufacture of U.S.-designed military systems including those conducted under Commercial Sales procedures, shall require formal approval by the Congress. In proposing such agreements, the President must submit an impact statement describing the impact of the project on U.S. national security, on local arms races and efforts to control the trade in conventional weapons, and on the U.S. economy and employment situation.

6. Technical Services: All contracts for technical military services, whether processed through FMS or Commercial Sales channels, shall be treated as regular military sales and subject to the same procedures established by #4. In submitting such proposals to Congress, the President shall provide an impact statement describing the effect of such projects on U.S. national security and on U.S. foreign policy. Projects which could precipitate U.S. military involvement in the case of hostilities involving the host nation shall be prohibited.

7. **Repression Technology:** No government which is found to have a record of serious human rights violations as defined by Section 502B of the Foreign Assistance Act shall be eligible for purchases of U.S. police weapons, riot-control devices, armored cars, surveillance gear, or other equipment, including computers, that could be used by that government's military and police forces for the purpose of impeding, curtailing, or abolishing the democratic rights of its citizens. A special category shall be added to the Munitions List of Repression Technology, to include: crowd- and riot-control devices; police vehicles and helicopters; surveillance and eavesdropping gear; police command-and-control systems; shock-batons, truncheons, and other items which could be used in torture; any such firearms or devices which are normally used by police and internal security forces. Any licenses for export of such items must be submitted to Congress if the value exceeds $10,000 and shall be subject to Congressional veto as in #4.

8. **Nuclear-capable Weapons:** The sale of nuclear-capable arms to non-NATO nations which fail to sign the Nuclear Non-Proliferation Treaty, or which have announced plans to construct plutonium reprocessing plants, shall be prohibited unless the President determines that such exports are essential to U.S. security and the Congress votes its formal approval.

9. Cruel and Inhumane Weapons: The sale of especially cruel and inhumane weapons, or weapons whose effects cannot be confined to military targets, shall be prohibited. A special category shall be added to the Munitions List to include cruel, inhumane, and indiscriminate munitions, including: napalm and other incendiary weapons; cluster bombs and other submissiled warheads; flechette guns and other especially injurious small arms; fuel-air explosives and other munitions whose effects cannot be confined to a precise military target. No weapons in this category shall be exported unless the President determines that such sale is essential to U.S. security and the Congress votes its formal approval.

10. Re-transfers: All re-transfers of U.S.-origin military gear shall be considered as a direct arms transfer and subject to all restraints noted above including Congressional oversight as in #4.

11. Grey Area Sales: Any item not now on the Munitions List which has a potential military application, including aircraft, vehicles, computers, and police-type hardware, shall be subject to the same controls noted in items #1-10 above when the designated end-user is a military, paramilitary or law enforcement agency. Sales of such items to nations which are ineligible for purchase of Munitions List items shall be prohibited, unless the President indicates to the Congress that adequate measures have been taken to ensure that such items will not be used for military or law enforcement purposes.

12. Payoffs, Promotion, and Advertising: Companies which are found to have used bribery or other illegal means to obtain arms contracts shall be ineligible for FMS contracts of Commercial Sales licenses for a minimum of one year, and no new contracts or licenses will be issued unless the President determines that adequate measures have been taken to preclude a reoccurrence of such practices. All foreign agents in the employ of U.S. arms firms must be registered with the Office of Munitions Control and any payments made to them in connection with FMS or Commercial Sales noted in an annual report submitted to OMC and available to scrutiny by members of Congress. No major combat system shall be exhibited or demonstrated abroad without prior notification to Congress. The President shall take sufficient steps to ensure that no funds provided through the Foreign Military Sales program or other publicly-funded program shall be used to pay for the advertisement of military systems. Such advertising shall not be considered a valid business expense and shall not be exempted from taxation.

13. Military Training: The International Military Education and Training Program shall be gradually phased out. In the meantime, no training in urban counterinsurgency or internal security functions, including military police operations, shall be provided to the military of ocuntries with records of serious human rights violations. Adequate measures shall be taken to ensure that such courses do not include material

of a basically law enforcement or civil security nature. Any training in the use of major combat systems should reflect the level of technology of the students' countries of origin and shall not be used to inculcate an appetite for advanced weapons. The President shall submit an annual report to the Congress on the International Military Education and Training Program to ensure that these measures are being carried out.

14. FMS Financing: The FMS credit program shall be gradually phased out, and the Federal Financing Bank shall not be used to finance arms sales. No country which is unable to provide its citizens with the minimum necessities of survival--food, shelter, and basic health--shall be eligible for FMS credits or loan guarantees.

15. Secrecy: The shroud of secrecy surrounding U.S. arms sales programs shall be lifted. Specifically, section 414 (e) of the Mutual Security Act of 1954, shal be reinstated, and reference to section 7 (c) of the Export Administration Act in section 38 (e) of the AECA shall be stricken. All reports prepared by the Arms Control and Disarmament Agency on the impact of proposed arms sales and co-production agreements on local arms races shall be made public.

16. Peace Conversion: It shall be U.S. policy to assist arms producers to convert from military to civilian production. Companies which face serious economic difficulties and employee lay-offs as a result of cutbacks in arms exports shall be eligible for special low-interest loans to enable them to convert

existing plants and machinery for non-military production. Employees at these plants shall be eligible for special retraining programs at their full original salary.

17. National Security and International Peace: It shall be U.S. policy to restrict the export of arms and military services, except when such transfers contribute to the deterrence of inter-state conflict and aggression. Section 501 and 531 of the Foreign Assistance Act and Section 4 of the AECA shall be amended to eliminate internal security as a justification for U.S. military assistance and training, Security Supporting Assistance, and military sales.

Remarks of Senator Hubert H. Humphrey, Johns Hopkins School for Advanced International Studies, Washington, D.C., February 5, 1976 *

Tonight I wish to discuss a controversial foreign policy topic which currently is before the Congress. It is an issue with which I currently am involved through my work on the Foreign Relations Committee.

It is a complex problem with no easy solutions.

I speak of arms transfers and current efforts to rewrite the statute by which the United States granted and sold more than $11 billion in 1975 in arms and defense-related services.

As in the case of general economic assistance, the Congress has become involved in the arms transfer area as a result of a very basic concern: It appears that these transfers are taking place in a policy vacuum.

We have taken the initiative because we could no longer sit back and watch important decisions being made on an ad hoc basis.

The transfer of arms from the United States to foreign nations has been an important component of American foreign policy since early in this century. A brief, historical overview demonstrates the longevity of this issue.

Two years before the U.S. entered the First World War the *Lusitania* was sunk carrying arms destined for Britain's war effort.

During the 1920's and 1930's the issue of arms transfer as they relate to foreign policy was hotly debated. A special Senate Committee chaired by Senator Nye of North Dakota was formed in 1934 to investigate the matter.

Its purpose was to examine the extent to which the U.S. was drawn into wars as a result of the munitions makers.

Senator Nye's work largely was unsuccessful and many believe it fed the fires of rampant isolationism which was sweeping the country.

After the end of World War II the United States began a program of granting arms to numerous countries as a means to halt the spread of Communism. This was a central ingredient of U.S. foreign policy for nearly two decades.

By the early 1960's many of our aid recipients in Europe and Asia could afford to purchase their weapons. The grant program declined in the 1960's, with the notable exception of Southeast Asia, as a result of the lessening of cold war tensions.

The decline of our grant program coincided with the sudden flow of oil revenues to Arab oil producers and the withdrawal of the British from the Persian Gulf and Indian Ocean.

The oil-rich nations were able and eager to purchase American and European weapons. By the early 1970's and the formulation of the Nixon Doctrine, our posture in the Persian Gulf was to rely principally on Iran and Saudi Arabia for stability in the region. This meant embarking on a vast program of selling technologically advanced weapons and building a local military infrastructure.

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* Humphrey, Hubert H. Remarks in the Senate. Congressional Record [daily ed.] v. 122, February 17, 1976: S3372–S3373.

Here are some interesting statistics to supplement this brief overview.

In the last 30 years the U.S. has given away or sold $110 billion in military equipment and supplies to foreign countries.

Last fiscal year, the U.S. government sold $9.5 billion in military equipment, supplies or services to 71 nations.

Slightly over $600 million in military material was supplied through commercial channels and $584 million was given away in military grants by our government.

We now have reached the point in a rapidly changing, multi-polar world when we must re-examine American arms transfer policy.

This complex task must be undertaken because we and other industrialized nations no longer can sell vast quantities of arms based on rationales rooted in the 1960's or even in the early 1970's.

We must look ahead five and ten years to the consequences for world peace and stability of policies formulated yesterday and today.

I do not deny that economic and political benefits can flow from the sale of weapons.

Jobs are created.

Weapons for our own forces are cheaper. Our balance of payments position may be aided.

And our overall commercial posture in foreign countries benefits.

Politically, arms can provide leverage or influence. Important military and intelligence bases often are secured through the sale or grant of weapons.

But we must weigh these advantages—many of which are short term—against the long term effect of unrestricted arms transfers on our national interests and goals.

Arms transfers to regions where conflict is likely stimulate arms races and can increase sharply the prospects for war. We see such a phenomenon in the Middle East. The Persian Gulf itself has yet to reach such a threshold, although some experts believe this inevitable.

Through the sale of arms and by providing support—including American servicemen—we become identified with particular regimes. Most important, we become embroiled in the day-to-day affairs of other governments and their military commands.

Such a relationship creates animosity over time and draws us deeper and deeper into the internal affairs of foreign nations. We are beginning to see this syndrome at work in Iran.

Our sale and grant of weapons to regimes which may engage in gross violations of human rights is of increasing concern. Our moral standing in the world is harmed by such practices.

The transfer of American arms can have an adverse effect on our own readiness as stocks of weapons are drawn down and our flexibility is reduced. If U.S. personnel are sent abroad in connection with the sales, we may compound our manpower problems.

If one of the countries heavily dependent on American arms becomes involved in a regional conflict or if that country experiences a breakdown of internal order, our options may become awkward and unpleasant:

We continue to supply spare parts or maintenance services to that nation and risk involvement; or we can refuse to cooperate.

If we take the latter course, we may incur the wrath of that government and undermine our reputation with other purchasers as a reliable supplier.

This is why the choice of arms recipients must be made with extreme care.

The transfer of advanced conventional weapons technology narrows the lead time nations need to develop nuclear weapons.

Many of the nations which are developing nuclear power for energy also are being provided what we call "dual capable" weapons such as ground to ground missiles. The marriage of nuclear fuel to advanced non-nuclear technology may lead to the further spread of nuclear weapons.

Finally, the arms we transfer for legitimate reasons may be retransferred illegally to other nations at a time of war. I frankly am concerned that Arab countries that were peripheral to past conflicts with Israel may participate with our weapons in a future war against the Jewish state.

It is fair to say that the U.S. Government sells vast quantities of arms to foreign governments with little foresight, minimal consultation with Congress, and very little scrutiny within the Executive branch.

The American people have become justifiably concerned with a highly secretive national policy which seems to disregard our long-term security interests in a stable, more democratic world.

The answer to this concern is not to halt abruptly all American arms sales. This would have a serious adverse impact on our economy and our foreign policy. I advocate, instead, two courses of action.

First, the Congress must exercise effective oversight of arms transfers through enactment of legislation which now is pending. The bill which I had the privilege to author—the International Security Assistance and Arms Export Control Act of 1976--is designed to achieve five basic objectives:

1. To shift the focus of U.S. arms sales policy from that of selling arms to controlling arms sales and exports;
2. To provide the Congress with additional information about, and expanded and strengthened control over, arms transfers;
3. To provide the public with more information about government arms sales actions;
4. To reduce significantly the number of military grant assistance programs and U.S. military missions abroad over the next year and a half and to require a specific authorization for any grant programs or missions after that; and
5. To reduce the cost of military assistance grants.

A major feature of the bill is to bring American arms exports issues out into the open. A basic fault of past policy, which has led to the present state of public concern, is that too much of the sales program in the past has been carried out in secrecy.

This bill requires that all government-to-government contracts be available for public inspection and that data in quarterly and other reports be unclassified to the maximum extent possible, consistent with U.S. security and the protection of the competitive position of U.S. industry.

I believe that more effective control over arms transfers by the Congress will force the Executive branch to formulate more responsible arms transfer policies.

I must emphasize that this nation needs an overall arms transfer policy with careful delineations about individual countries and regions. A well understood policy framework cannot be developed by the Congress through legislation. This responsibility belongs primarily to the Executive branch. But it should be undertaken with the cooperation of the Congress.

Moreover, Congress cannot manage these programs, and this legislation is not designed as a substitute for a soundly managed arms transfer program.

The second course of action is more difficult to achieve.

I believe that the United States should embark on a major initiative to achieve multilateral constraints in the transfer of arms.

I do not believe that this issue has ever been given serious consideration by our policy makers. But it must be no[illegible]

In order to be taken seriously, our proposal must be concrete and somewhat limited in scope.

One possible option to be explored is a joint Soviet-American moratorium on the transfer of all surface-to-surface missiles to countries outside of Europe.

This would mean no more Scuds, Frogs, Lances and no Pershing missiles to the Persian Gulf or the Middle East.

If this could be achieved, it would be an important first step toward further, more extensive agreements which could include other Western and Eastern suppliers. If commercial rivalry is the main roadblock to unilateral constraints, then a multi-lateral approach should be utilized.

I conclude with an appeal for greater discussion of the arms transfer issue within government and by the public. If this is not done, the sale of arms by the United States and other nations will continue at increasing levels and in an indiscriminate manner.

American sales for 1976 are expected to jump to the $14 billion level. The national security justification for such a volume of sales seems to lag considerably behind the economic benefits and short run political advantages which fuel the arms trade.

The policy drift in this critical area is alarming. The next President of the United States needs to address this issue and provide badly needed leadership and policy direction. The high level attention which has been given almost exclusively to the control of the strategic arms race through the SALT process must be shifted to the arena of conventional arms transfers.

As the nightmare of nuclear holocaust seems to grow more remote, we are confronted with the future prospect of regional wars of ferocious intensity and devastating destruction fought with the latest American weapons.

Surely, we can work to avoid such an outcome.

Surely, America can stand for something more in the world than its export of military technology.

We must realistically confront what the future holds. And we must do it now.

PREPARED STATEMENT OF AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC. AT HEARINGS BEFORE THE SUBCOMMITTEE ON FOREIGN ASSISTANCE OF THE COMMITTEE ON FOREIGN RELATIONS, U.S. SENATE, APRIL 26, 1978*

The Aerospace Industries Association of America, Inc., representing the nation's major manufacturers of aircraft, spacecraft, missiles and related equipment and services, appreciates this opportunity to comment for the record on pending and past policy changes concerning conventional arms transfers. This is an area of obvious interest to our membership, inasmuch as aircraft and missiles constituted 48 percent of total foreign military sales delivered between 1950 and FY 1977. It is an area in which our member companies have long worked hand in hand with the United States Government to pursue certain foreign policy aims.

This is also an enormously complex subject which has excited considerable controversy in the past several years. We believe that public discussions of arms transfer issues and legislation have been handicapped by the failure to identify which of two basically conflicting assumption is, or should be, controlling in making arms transfer decisions. These assumptions are:

That higher armament levels generally increase the risk of conflict and that lower levels are therefore desirable.

That an increase in defense capability by the weaker of two potential adversaries—creating a level of balance between them—reduces the likelihood of conflict between them and is therefore desirable.

The first assumption seems to figure prominently in the rationale behind arms restraint legislation and recent Executive Branch actions and the second is more widely embraced by individuals in both Government and industry involved in specific transactions. We believe this breakdown to be significant because the first assumption, which seems to enjoy some popularity with legislators and Executive Branch officials, is the more abstract and seems to sidestep certain very real elements of judgment and decisionmaking.

In our view, the vital elements of judgment which should be applied to arms sales were comprehensively and succinctly stated by Rep. Stephen J. Solarz in his address of November 28, 1977, before the American Defense Preparedness Association. On that occasion, Congressman Solarz outlined 13 general reasons why a given arms transfer should be favored and 12 general reasons which would militate against such a transfer. Because we cannot improve on these well thought-out conditions, we would like to summarize them as follows:

THIRTEEN REASONS TO FAVOR A SALE

1. By arming our allies, we strengthen the collective security of ourselves and our friends.
2. If we make a friendly nation strong, we are less likely to have to intervene in its behalf.
3. By creating or maintaining a regional balance of power, the outbreak of war itself may be obviated.
4. Sale of arms help solidify political relationships with the recipients.
5. Sales of arms can help make some countries more dependent on us and less dependent on the Soviet Union or China.
6. Just a willingness to sell arms will solidify a relationship with a given country, refusal to do so can lead to a sharp deterioration in a relationship.
7. To the extent we do become a major supplier to a country, that country becomes dependent on us for replacements and spare parts.
8. If we believe in the right of self-determination, we must surely recognize the right of nations to determine their own military needs.
9. Arms sales make a positive contribution to our balance of trade.

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*U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on Foreign Assistance. International Security Assistance programs; hearings. 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 283–286.

10. Sale of arms abroad means the likelihood of more jobs at home.

11. Sale of arms abroad reduces the cost of arms for domestic use.

12. If we don't sell, others will. (This is not a popular argument, but no one ever denies that it is true.)

13. Our willingness to sell conventional arms can prevent countries from pursuing a nuclear alternative.

TWELVE REASONS TO REFUSE A SALE

1. Selling weapons in volatile areas can exacerbate old rivalries.

2. By selling arms to both sides in the same conflict, we may do a disservice to our political principles.

3. Just as arms sales can create a regional balance of power, they can create a regional arms race.

4. The countries who are our allies now could be controlled by our enemies tomorrow, and those enemies would then control the arms we sold.

5. While the sale of arms can increase our influence, it could increase it to the degree that we could get involved in wars not of our choosing.

6. Within a conflict, heavily armed adversaries are likely to take more lives and cause more destruction than inadequately armed opponents.

7. Many of our sales go to repressive regimes more interested in oppressing their own people than in defending themselves from relatively nonexistent foreign threats.

8. Sale of arms to poorer countries can result in diversion of limited economic resources from development to defense.

9. Selling our most sophisticated weapons to other countries before they are in use in the United States puts our security second.

10. Selling advanced weaponry escalates the risk of these arms falling into enemy hands.

11. Despite restrictions, weapons sold abroad often are used for aggressive rather than defensive purposes.

12. While others may well sell if we don't, we are not responsible for their actions, only for our own.

Obviously all or even most of these considerations, either pro or con, would not apply to a given transaction, but some of them will always apply and others will apply as the transaction matures. It is a delicate, complex judgmental situation. Therefore we would agree with Congressman Solarz when he concluded:

"I have to confess that I am uncomfortable in the presence of those who insist on the simplification of the complex, and who believe that arms sales are either an unmitigated evil, or an unassailable good. Arms sales in general, it seems to me, are neither good nor evil. In the abstract, they are neither helpful nor harmful to the national interest. But arms sales in specific may be one or the other, and whether they are or aren't is something which can only be rationally determined on a case by case basis."

Of course, the Government has the right, indeed the obligation, to oversee foreign sales; but in our view the six policy guidelines issued by President Carter on May 19, 1977, and the dollar ceiling announced several weeks ago represent exactly the type of oversimplification referred to by Congressman Solarz. Taking the six policy guidelines and the ceiling in order, our reasons are as follows:

POLICY GUIDELINES

The first policy guideline is that the U.S. will not be the first supplier to introduce a newly developed, advanced weapon into a region, when that weapon would create a significantly new or higher combat capability. This would be perfectly all right if there is some reason, apart from this general dictum, that the would-be recipient should not have the weapon. However, this rule makes no reference to those cases in which the United States Government has gone through the 13 pros and 12 cons and decided that it is in our national interest for that country to have the weapon in question. The President can now make an exception to all six guidelines, and because they are something of a shortcut for judgment, such leeway is essential to the national interest.

The second guideline is that the U.S. will not sell or permit co-production of such advanced weapons until they are deployed with U.S. forces. The rationale behind this is that it is usually inconvenient or uneconomical to build and support a weapon which is not in our own forces. As a guideline, however, it ignores the fact that a country may have an immediate, valid need for the weapon which is not achievable by other means and may need the weapon before it is incorporated into U.S. forces. Where we want them to have it, where it serves our purposes, the Presidential exception power is vital.

Third, the Administration says it will not permit development of advanced weapons solely for export. Again, this policy is based on the fact that we do not want to support weapons we are not using. However, there have been justifiable exceptions to this rule and doubtless there will be others.

Fourth, co-production by other countries of significant weapons, equipment or major components is to be discouraged. While this caters to one domestic political consideration, i.e., that U.S. jobs may be lost by co-production, it ignores another political reality: It is simply a fact that many foreign buyers which want the weapon and which the U.S. *wants* to have the weapon could not purchase it unless there was a co-production tradeoff. Sometimes the cost of the weapon is so high that they could not afford to buy it unless they produce part of it. If the sale is deemed valid based on the 25 considerations, then co-production should not be a controlling factor in the U.S. Government's determination of its own foreign policy objectives.

The fifth guidelines is that U.S. weapons or equipment will not be transferred to third countries without our consent or that the transfer of certain weapons may be prohibited altogether. It is now the law that third party transfers cannot occur without U.S. permission, but to prohibit such transfers altogether would fly in the face of certain valid political and/or economic requirements which have occurred from time to time and will again.

The sixth guideline is that American diplomatic and military officials will not be permitted to promote the sale of arms. Where the sale has been identified to be in the national interest, it therefore becomes a national priority of U.S. employees to facilitate—not promote, but facilitate—that sale, just as they would facilitate signing of a treaty or pursue any other legitimate foreign policy assignment.

In summary, concerning the six guidelines, obviously Government has the right to identify possible troublespots relating to arms sales, but we urge that leeway to make the complex judgments involved not be compromised.

ARMS CEILING

Our position vis-a-vis the dollar ceiling on arms sales again hinges on the assertion that there are a great many valid arms sales proposed in a given year—valid in terms of the 25 pros and cons and valid in terms of the needs of our allies. Put simply, imposition of a ceiling virtually nullifies the case-by-case approach and, in the process, raises innumerable other difficulties.

On a strictly philosophical basis, an arms ceiling is based on several highly questionable assumptions. First, it addresses itself to the symptom, the amount of arms sold, not to the disease, the presence of threats and insecurity in the world. Second, it puts the Government in the position of ruling that a sale is valid simply because it is below a certain, arbitrary number and invalid simply because it brings the total above such a number.

Operationally, and more insiduously in our view, imposition of a celing replaces the enormously complicated decisionmaking process alluded to earlier with a simple, and we think, simplistic, determination as to where the request falls in the fiscal year. In so doing, it puts equal constraints on sales central to U.S. interests and those only marginally so. This is in complete contradiction to the 25 point, case-by-case judgment method of approving or disapproving arms sales.

In addition, a ceiling will impose on would-be buyers a "Monte Carlo" mentality, in which they must look warily over their shoulders at the armaments decisions of other countries, which are not, and should not be, any of their business. If the ceiling is administered on a first-come-first-served basis, there will be a tendency for countries to propose sales which have not sufficiently matured as to need and financing, so as to be considered while there is still "room" under the ceiling.

If the ceiling is administered on a quota basis, the Government will be required to distinguish between various regions, which could have serious foreign policy repercussions. More importantly, however, countries will naturally tend to utilize all of their quota so as to avoid having unmet demands in later years and thus the so-called ceiling will actually become a floor, possibly escalating arms sales beyond what they would have been in the absence of such a ceiling. Further, recipients will become uncertain about the reliability of their supplier, the United States, and may become resentful if their requests are rejected on the basis of the ceiling rather than on their merits. Last, countries will tend to opt for less expensive, and in some cases less appropriate, weaponry in order to squeeze in under the ceiling.

In short, we believe that imposition of a ceiling amounts to governmental abdication of its rightful and all-important policy-making obligations and thus represents a step backward in the attempt to create a flexible, intelligent arms sale atmosphere in which all parties can operate comfortably and in good conscience.

OTHER PROPOSED CHANGES

In closing, we would like to comment on several other proposed actions which we believe would interfere with the evolution of the suitable case-by-case approach to sales. We refer first to the oft-mentioned extension of the Congressional negative veto period on individual sales from 30 days to 45 days. Again, we submit that if a sale has been determined to be a valid arms transfer, then everything possible should be done to facilitate it. Certainly, nothing should be done to impede it. While Congress has a legitimate role to play in evolution of arms sale policy, we felt that the 30-day period contained the possibility of unworkable delays and we feel even more strongly that the 45-day period is unwarranted. Because the longer period would increase the risk of encountering Congressional recesses and could be parlayed into months of waiting, we would oppose such a change. It makes no sense for a 535-member committee to undertake the delicate assessment of the 25 pros and cons. The Congress, no less than any other branch of Government, has some obligation to expedite sales entered into in good faith by our allies and friends and implemented by U.S. companies.

For the same reasons, we would oppose any change from a negative veto to a requirement that both houses of Congress approve each sale. As anyone who has ever tried to get a bill passed can attest, positive Congressional action can take up to two years or more. If a time limit on positive Congressional action were to be imposed, it would result in hasty, pro forma action on most transactions and therefore would serve no purpose save to clog up the Congressional calendars and create dissension among our allies.

In conclusion, here is where the American aerospace manufacturers stand: We believe that arms sales are not in themselves bad and that many are extremely valuable. However, that is not up to us to decide, nor would we want to make those decisions. If the Government in its wisdom wishes to impede *all* arms transactions, it should embargo arms sales. Then we will all know where we stand. If not, and if the Government acknowledges that some sales are valid, these sales should be allowed to go forward. As manufacturers, we should receive full support in satisfying the buyer as to the technical specifications, delivery schedule, pricing, establishment of logistical and support systems, training of personnel and furnishing of follow-on support. If these factors are not accounted for, industry cannot assure prompt and effective implementation of valid arms transactions. We look to the Congress and the Executive Branch to make these judgments carefully and intelligently and help American industry to take it from there.

The United States as Arms Supplier; A Policy That Makes Sense *

(By Robert D. Heinl, Jr.)

Washington (NANA-DN).—President Carter's moralistic decision to curtail if not wholly arrest U.S. international arms exports betrays the classic chicken-vs.-egg confusion between arms and tension which has trapped so many of the world's tender minds.

Clearer-headed students of world conflict have long perceived that foreign policies and national objectives provide the underlying dynamics of arms programs. But a vociferous and woolly-minded minority, to whom Carter now seems to be joining himself, proclaim the reverse—that international trade in armaments is in itself destabilizing, exploitative and, well, a bit indecent.

This is a big switch insofar as U.S. policy is concerned.

Ever since World War II, discriminate grants and sales of arms to friendly foreign nations have been a pillar of our alliance systems and generally of U.S. foreign relations. This is hardly unique to the United States; not only Russia but most other leading powers and not a few of lesser standing (e.g., Sweden, Belgium, Czechoslovakia) have major armaments industries and use arms exports as prime tools of diplomacy.

It has been just over four decades since the United States has been last caught up by the "merchants of death" demonology of the 1930s.

In those distant times, when Hitler was arming Germany at a rate almost equal to that of Russia today and the West as usual was cutting defense forces and budgets in favor of social welfare, the belief prevailed that the manufacture and export of arms was a significant cause of war.

The Senate munitions investigations of 1934–36 by the headline-grabbing Nye Committee exposed to true believers the villanies of the arms trade and begat the neutrality acts intended to keep the United States out of any such dirty business and therefore keep us, and maybe the world, out of war.

As is well known, the neutrality laws had no such effect whatever, save to lull the public mind, and had to be elaborately circumvented before being drowned out in the tidal wave of war they failed to prevent.

Underlying the mushy thinking of those days and now of today, there lies a body of fallacy and mythology regarding the so-called "arms trade" which can be summed up in the following propositions:

(1) Armaments in themselves provoke wars, bankrupt nations, foster international hostility, and constitute the world's most unsettling influence.

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*Reprinted by permission. Seapower, v. 20, August 1977 : 32–33.

(2) Any increase in the availability of weapons will inevitably bring about an increase in their use.

(3) Transfer of arms to the Third World is mounting alarmingly and will continue to grow without check unless we quickly take steps to control it.

(4) Denying "sophisticated arms" to the Third World automatically decreases the risk of war among the lesser nations.

(5) All that is required is for the United States to mend its ways (the Jimmy Carter thesis) and then for the two giant arms suppliers, the United States and Russia, to reach agreement to control world traffic in armaments.

If you believe a single one of the above propositions, go to the foot of the class.

Armaments do not cause wars. Human behavior and rivalries generate the claims whose ultimate resolution and satisfaction are found in war. As Winston Churchill once said, "It is the greatest mistake to mix up disarmament with peace. When you have peace, you will have disarmament." Nor is there any record of an armaments program ever "bankrupting" a nation, whatever that really means.

States arm themselves and on occasion fight wars not because they have armed forces on hand but in rough proportions and response to the scales of national objectives or perceived international threats.

With the exception of the Middle East and a handful of African and Latin American countries, and India, to which arms transfers have indeed spiraled, the transfer of arms from developed to underdeveloped nations has been fairly stable and has if anything leveled off since the mid-1960s. Throughout Sub-Saharan Africa, for example, aggregate defense expenditures as percentage of gross national product average less than 10% and have mostly dropped rather than risen since 1970.

The propensity to kill each other among Third World countries is unaffected by the level of arms on hand. As Idi Amin has demonstrated, small arms can be as genocidal as nuclear weapons. They just take a little longer.

Superpower restraints (even, if you could believe it, on the part of Russia) would have little effect on the trade of arms with the Third World. While it is true that the USSR, the United States, France, and Britain supply well over 90% of "major weapons" to the underdeveloped countries, the following nations have burgeoning arms export capacities and markets ready to absorb any slack from the large suppliers: Sweden, Belgium, India, West Germany, Italy, Canada, The Netherlands, Switzerland, South Africa, and Israel.

What we need to understand from all the foregoing, and what Carter and his advisers seemingly do not understand, is that a world trade in arms is not something inherently nefarious or destabilizing but a reality in the world as it exists.

To deny ourselves the demonstrable diplomatic, economic, and security advantages that result from being a rational supplier of arms in the world marketplace is to set the clock back to 1937 and 1938; and we all know what started in the year that followed.

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WEAPONS FOR THE WORLD UPDATE II*

The U.S. Corporate Role in International Arms Transfers

The Carter Policy and Its Effects

In May 1977 President Carter issued an Executive policy statement in which he said, "Because of the threat to world peace embodied in this spiralling arms traffic, and because of the special responsibility we bear as the largest arms seller, I believe that the United States must take steps to restrain its arms transfers."

Six basic guidelines delineate President Carter's general policy for the U.S. role in international arms sales. They contain provisions limiting: the dollar value of weapons sold; the spread of sophisticated weaponry; the design of weapons specifically for export; coproduction agreements; retransfers of military equipment of U.S. origin; and military sales promotion by government or corporate representatives abroad.

There are, however, important caveats to the guidelines. Exempted from the limitations are NATO countries, Japan, Australia and New Zealand (as well as Israel implicitly). Moreover, the guidelines specifically do not apply to sales of support services and training (as opposed to weaponry).

The policy immediately became the center of considerable speculation and debate. The above-mentioned "loopholes" were the focus of much criticism by members of the peace community, while members of the defense community attacked the guidelines in general as overly restrictive, inconsistent and confusing to both U.S. military companies and our allies.

Numerous analyses of the Carter policy and its effects have subsequently appeared (See "Implications of President Carter's Conventional Arms Transfer Policy," by the Congressional Research Service of the Library of Congress [Washington, D.C.: Government Printing Office, September 22, 1977]; "Conventional Arms Restraint: An Unfulfilled Promise," by Michael T. Klare and Max Holland for the Institute for Policy Studies [Washington, D.C., 1978]; "Arms Across the Sea," by the Brookings Institution [Washington D.C., 1978]; and "President Carter's Arms Transfer Policy: A Critical Assessment," by Seymour Weiss for the Advanced International Studies Institute [Washington, D.C., 1978]; among others). The Council on Economic Priorities' own

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analysis of the Carter policy published in October 1977 (*Weapons for the World/Update*, R7-3), reserved final judgment as to the ultimate effect of the Carter policy, although we held out hope that it might presage "a new direction in Executive initiatives to limit U.S. participation in the world of international arms transfers."

One year later, it is now apparent that these new guidelines, while enforced in certain limited areas, have yet to produce any basic alteration in the growth and pattern of U.S. arms sales.

In keeping with the principles of these guidelines, the Carter Administration has taken a limited number of steps to curtail certain aspects of the U.S. arms trade. It has apparently kept its promise to reduce (by 8%) 1978 sales of weaponry to countries other than our closest allies. In addition, in May 1978 the State Department announced that in the preceding year it had rejected $1 billion in Foreign Military Sales (FMS) requests—both in the interest of preserving regional stability and for human rights reasons—and that it had turned down $800 million in sales proposals for technical and security reasons. Details on these and any subsequent rejections are currently classified.

The State Department has also rejected several sales by foreign countries of weapons with U.S. components. Such rejections include a sale of Israeli Kfir fighters to Ecuador in 1977 (in keeping with a U.S. policy restricting the sale of sophisiticated weaponry to South America); a $2 billion agreement for the Swedish Viggen fighter to be coproduced in India (it is not presently U.S. policy to sell military aircraft to either India or Pakistan); and the sale of 20 Italian Aeritalia G.222 transport aircraft to Libya (to whom the U.S. no longer sells arms); among others.

In addition, the Carter Administration has reportedly attempted to monitor and limit the display of U.S. military equipment by corporations at international air shows.

Record Number of FMS Orders in 1978

By contrast, these steps toward limitation of U.S. foreign military sales activities appear ineffectual in the light of figures already available on FMS activities in Fiscal 1978. An estimated all-time high $13.4 billion in FMS orders were received in the year October 1, 1977 to September 30, 1978. Of these orders, Saudi Arabia accounted for $4.1 billion; Iran, $2.6 billion; Israel, $1.4 billion; and Egypt, $937 million. While weapons sales to countries other than our closest allies were in fact reduced to $8.51 billion in 1978 (slightly less than the $8.55 billion ceiling projected by Carter—and down from $9.9 billion in 1977), sales of military services such as training and construction remained uncontrolled and unrestrained. In 1978, for example, over $4 billion in training, construction and support offers were made to Saudi Arabia alone. More generally, the Department of Defense (DoD) estimates that 60% of all FMS contracts are for support articles and services.

In addition, the General Accounting Office (GAO) has questioned the DoD accounting practices on which the proposed reduction from $9.9 billion in 1977 to $8.55 billion in 1978 of weapons sales to nations not our primary allies was projected. According to the GAO, last year's $9.9 billion figure was inflated due to FMS accounting practices, and this year's $8.55 billion ceiling in fact represented only a $66 million reduction from last year's weapons sales to these nations.

While the prohibition on certain sales of foreign weaponry containing U.S. components indicates an attempt is being made to maintain regional balances and limit the spread of U.S. military technology, the U.S. has continued its sales unabated in the most unstable of regions, the Mideast. In addition to Israel, Saudi Arabia and Iran, Egypt has now been added as a major purchaser of U.S. military equipment and services.

The various restraints which the Carter Administration has exercised have not succeeded in stemming the general volume and changing direction of foreign military sales under the Nixon and Ford Administrations. The number of rejected sales and refused transfers, which the Carter Administration has publicized, may have resulted from a greater world demand for U.S. weapons or weaponry with U.S. components rather than from the ability of the Administration to restrain the U.S. role in worldwide transfers.

Further Criticisms of FMS

While the debate over foreign military sales has ranged over a wide variety of issues (see *Weapons for the World/Update* for a brief summary), several new areas of concern and criticism have emerged within the last year.

Size of the FMS Program: The sheer size of the FMS program (which has developed basically only over the past four years) has, in and of itself, emerged as a problem. The U.S. has received FMS orders totalling $47.2 billion over 1974-77. Because of the tremendous rate at which these orders have been coming in—and because many of the orders are for the most advanced U.S. weapon systems just now entering production—the majority of these orders are not filled immediately and accumulate in a backlog for future fulfillment. As of 1977 there was a huge backlog of $39.2 billion in unfilled FMS orders. This backlog is effectively equivalent to the combined annual U.S. DoD procurement and research and development budgets in recent years ($42 billion in 1976 and $50.4 billion in 1977). Filling these orders has become a major administrative task for the U.S. Army, Navy and Air Force. In its Report, "Foreign Military Sales—A Potential Drain on the U.S. Defense Posture," the GAO, for example, has estimated that in 1975 50% of the U.S. Army's procurement went to fill foreign orders.

Congressional Control: Since FMS activity rose dramatically in 1974, the ability (or lack of ability) of Congress to monitor and control these sales has been a major issue (see *Weapons for the World/Update* for a brief review of Congress' role). Since 1975 Congress has had the power to veto major sales of military equipment and services. In 1977 Congress obtained more lead time (30 days) in which to exercise its veto power. Despite this power and vocal opposition to several major sales, however, Congress has yet to actually disapprove any sale proposed by the Executive. In two cases—the $1.2 billion sale of Boeing AWACS early warning and communications aircraft to Iran in 1977, and the $2.5 billion sale of F-15 fighters to Saudi Arabia in 1978—substantial Congressional opposition was eventually overcome by the Carter Administration. In such cases, by the time these major sales are actually submitted to Congress, too much international momentum has been built up for a Congressional rejection without major foreign policy repercussions. In its report for the 1978 International Security Assistance Act, the Senate Foreign Relations Committee noted: "The committee too often has heard the Executive Branch argue that the U.S. has made a commitment to sell a certain weapon and that a Congressional rejection will violate that commitment and seriously jeopardize U.S. relations with the proposed buyer nations." The newly enacted legislation consequently specifies that the military surveys which the DoD conducts in foreign countries to determine defense needs and capabilities prior to major sales should not be interpreted as commitments by the U.S., and that Congress must be informed of all such surveys.

In addition, the 1978 International Security Assistance Act requires licensing for the export of "crime control and detection" equipment to most countries (NATO, Japan, Australia and New Zealand are exempted), and prohibits the issuing of such licenses to countries with established patterns of human rights violations, unless the President notifies Congress that "extraordinary" circumstances exist (see "Supplying Repression," by Michael Klare, Field Foundation, [New York, 1978]).

Table I

TOP 25 FMS CONTRACTORS, FY 1977

(Thousands of Dollars)

	1977	1976 (rank)
1. Northrop Corp.	$ 853,022	$1,292,502 (1)
2. McDonnell Douglas Corp.	446,134	480,460 (2)
3. Lockheed Corp.	305,226	139,111 (9)
4. General Dynamics Corp.	303,322	45,841 (18)
5. Grumman Corp.	252,814	303,662 (3)
6. General Electric Co.	220,958	248,134 (5)
7. Hughes Aircraft Co.	156,092	174,256 (8)
8. Raytheon Co.	149,028	218,555 (6)
9. Mi Ryung Construction Co. LTD.	137,710	*
10. Litton Industries Inc.	120,941	258,454 (4)
11. You One Construction Co. LTD.	106,429	*
12. United Technologies Corp.	87,102	104,198 (11)
13. Peterson Builders Inc.	79,193	*
14. Saudi Tarmac Ltd. & Saudi OS Ltd.	77,247	*
15. Textron Inc.	73,540	115,470 (10)
16. Westinghouse Electric Corp.	70,986	43,862 (20)
17. Ford Motor Co.	42,260	n.a.
18. Harsco Corp.	39,698	61,428 (15)
19. Texas Instruments Inc.	34,554	n.a.
20. American Telephone & Telegraph Co.	26,773	24,596 (23)
21. Chamberlain Mfg. Co.	26,099	*
22. American Motors Corp.	22,805	88,790 (13)
23. Singer Co.	22,224	*
24. Teledyne Inc.	21,241	27,024 (22)
25. Hercules, Inc.	19,879	n.a.
Total, Top 25 Companies	**$3,695,277**	**$4,235,075**
FMS Total	**$4,449,536**	**$4,860,222**

*Not among top 25 FMS contractors in 1976.

Source: "Foreign Military Sales, top 25 Companies and Their Subsidiaries Listed According to Net Value of Military Prime Contract Awards. Fiscal Year 1977." Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports, May 15, 1978.

Note: FMS contract awards for the transitional quarter 197T, July 1, 1976 to September 30, 1976, are not included in the above figures for 1976 or 1977. Total FMS awards for that time period were $935,983,000. These figures are not presently available on a company-by-company basis.

The Corporations

In the midst of the attempted restraints of the new Carter policy, actual FMS contracts placed by the DoD with private firms to fill the increasing volume of orders—contracts which have risen steadily from $2.8 billion in 1974 to $3.68 billion in 1975 and $4.86 billion in 1976—dropped slightly in Fiscal 1977 to $4.45 billion. This leveling off in corporate contracts may be in part attributable to the fact that much of the multibillion dollar military construction work now underway in Saudi Arabia is being carried out by the U.S. Army Corps of Engineers instead of by private contractors. In light of the tremendous backlog of FMS orders, however, CEP feels it is likely that this slight drop in FMS contract awards to U.S. corporations may only be a temporary phenomenon.

Of the ten top FMS contractors in 1976, eight remained among the top ten in 1977. For the second consecutive year Northrop received over 80% of its DoD contracts from FMS awards. General Dynamics, which had been eighteenth among FMS contractors in 1976 jumped to fourth in 1977, with FMS awards accounting for 22% of its DoD business. Lockheed also increased its reliance on FMS contracts from 9% in 1976 to 19% in 1977. Grumman decreased its dependence on foreign military contracts from 31% in 1976 to 18% in 1977, and Raytheon decreased from 28% to 14.3%. FMS awards accounted for a slightly decreased percentage of total DoD business for McDonnell Douglas, General Electric, Hughes and Litton. Textron which had been tenth in 1976 dropped to fifteenth in 1977, with awards of $74 million, while FMC, a manufacturer of armored personnel carriers, which had been seventh in 1976, did not appear among the top 25 FMS contractors at all in 1977.

Among the top ten FMS contractors, U.S. corporations were less dependent on FMS contracts to supplement their overall DoD awards in 1977 than in 1976 (24.5% versus 30.5%). (This figure excluded the Saudi MI Ryung Construction Company which received 100% of its DoD contracts under the FMS programs. Inclusion of MI Ryung would bring the average dependency figure up to 32%.)

1. **Northrop.** By far and away the most active U.S. corporation in foreign military sales, Northrop received almost 20% of all FMS contracts awarded in 1977—or 81.5% of its DoD contracts in that year (down slightly from 87.3% in 1976). Its huge "Peace Hawk" technical services and construction contract with the Royal Saudi Air Force—worth $1.4 billion through mid-1979—has been extended for another three years at a total $1.3 billion. Northrop also received a $74 million, two-year management and support contract with the Jmperial Iranian Air Force in the fall of 1977. The largest F-5E order of 1978 came from Egypt. This sale of 50 F-5E/Fs, originally estimated at $590 million, is now estimated at $700 million. Other major anticipated orders for F-5E/Fs in 1978 include 16 for Indonesia at $125 million; 12 for Sudan at $117 million; and four to Thailand at $15 million. In adition Saudi Arabia reportedly transferred four of its early model F-5Bs to Yeman in 1977.

2. McDonnell Douglas. McDonnell Douglas, presently the DoD's largest contractor, received $446 million of its $2,574 million in contract awards as a result of foreign military sales in 1977. The $2.5 billion order for 60 McDonnell Douglas F-15s from Saudi Arabia in 1978 will certainly increase McDonnell Douglas' FMS contract awards in years to come. In addition, in 1978 Israel was offered 15 F-15s for $431 million; and Japan 8 F-15s for $144 million. Also in 1978, 31 F-4E fighters were offered to Iran for $350 million and 11 reconnaissance versions of the F-4 were offered to that country for $170 million; Spain was also offered 4 RF-4s for $11 million. Moreover, the McDonnell Douglas Harpoon missile was also offered to several nations: Germany, 142 for $86 million; Spain, 40 for $29 million; Sweden, 100 for $94.2 million; and Australia (amounts classified). All told, more than $3.7 billion in offers involving McDonnell Douglas military equipment were made during 1978.

3. Lockheed. Lockheed increased its FMS contract awards for 1977 to $305 million, up substantially from $139 million in 1976. In 1978 Japan was offered 8 P-3C antisubmarine patrol aircraft for $100 million, five of which are to be produced under license in that country. Japan plans to acquire 45 of these aircraft at an estimated value to Lockheed of $250 million. The C-130 transport, which has sold well around the world, was ordered by Egypt (14), Portugal (3) and Bolivia (1) in 1977. Additional 1976 and 1977 C-130H orders have been reported from Brazil (2 KC-130 tankers), Cameroon (2), Gabon (1), Iraq (6) and Sudan (6). In addition to its technical assistance programs with the Imperial Iranian Air Force and the Iranian Aircraft Industry (see *Weapons for the World/Update*), Lockheed also reports that it is now providing support services to the Royal Saudi Arabian Air Force.

4. General Dynamics. The sharp rise in General Dynamics' FMS contract awards, from $45 million in 1976 to $303 million in 1977, is attributable to commencement of work on its huge $2 billion sale of 348 F-16 fighters to Belgium, Denmark, the Netherlands and Norway. It now appears that additional F-16 sales to other countries will continue to make General Dynamics one of the top FMS contractors. In 1978, 75 F-16s were offered to Israel for an estimated $1,519 million. Spain is also reportedly planning to purchase 72 F-16s and South Korea is considering a buy of 60-90; Iran, which has already ordered 160 of the aircraft, would like to purchase 140 more. Economic and social unrest in Iran, however, have reportedly forced a postponement of this order.

5. Grumman. Grumman's work on its major FMS contract—80 F-14 fighters for Iran—has drawn to a close. The last of these aircraft was delivered in October 1978. Before the present civil unrest in Iran, that country reportedly had been interested in purchasing an additional 70 of the aircraft—a purchase which would have been worth approximately $900 million to Grumman. Without more F-14 orders, Grumman's FMS work will undoubtedly decline. Other FMS orders include a $35.5 million Israeli contract for the Flagstaff MkII hydrofoil patrol boat, as well as a projected order of 6 E-2C Hawkeye electronic early warning planes by Japan.

In a dispute over a $28 million sales commission (only $6 million of which was actually paid) on the original Iranian F-14 sale, Grumman has recently reached an agreement with the Iranian government to supply it with $24 million worth of spare parts for the F-14s without charge.

6. **General Electric.** General Electric's FMS contract awards were down slightly in 1977 to $221 million (from $248 million in 1976). Because GE manufactures jet engines for numerous widely-exported U.S. fighters and military helicopters, it will undoubtedly retain its relatively constant and stable position among FMS contractors in years to come. Major aircraft offers involving GE engines include all Northrop F-5E/Fs, and all McDonnell Douglas F-4s. Many foreign military aircraft continue to be powered by GE engines and several nations continue to manufacture GE engines under licensing agreements.

7. **Hughes Aircraft.** The Hughes TOW anti-tank missile was offered to several countries in 1978: West Germany (15,000 for $79 million); Canada (1,728 for $13 million); Korea (1,100 for $8 million and 1,108 for $9 million); and the United Kingdom. Iran was offered two service and training contracts in support of the Hughes Phoenix missile which arms its F-14 fighters, one for $46 million and the second for $68 million. In addition both West Germany and Taiwan reportedly will be purchasing Hughes air defense systems.

8. **Raytheon.** As a major supplier of exported missile systems, Raytheon continues to hold its place among the major FMS contractors. In 1978 its Hawk anti-circraft missiles were offered to Israel, 60 for $9 million; and Taiwan, five batteries for $125 million. Also in 1978 Germany was offered 96 Raytheon Seasparrow missiles for $7 million; Israel was offered 170 Sparrow missiles for $24 million; and the 60 Saudi Arabian F-15s will be armed with Sparrow missiles as well as Sidewinder missiles, in the production of which Raytheon is also involved. Iran was also offered $14 million worth of Sidewinder missiles.

9. **MI Ryung Construction, Ltd.** MI Ryung Construction is a Saudi Arabian construction firm working on harbor and coastal facilities in Saudi Arabia. The firm is one of many (predominantly U.S.) companies contracted by the DoD to do extensive construction there. For the first time in 1977 foreign companies appeared on the top 25 FMS contractors list. The other two appearing this year were: You One Construction, Ltd., a joint Saudi Arabian-South Korean venture involved in the building of training facilities for personnel support in both Saudi Arabia and Korea; and Saudi Tarmac Ltd.—Saudi OS Ltd.

10. **Litton.** Litton's position among the top ten FMS contractors this year, as last, is primarily due to work on the $1.3 billion order for four DD-963 destroyers for the Iranian Navy. Litton also manufactures inertial navigation systems on widely exported U.S. military aircraft, and missile fire control systems.

Table II

TOP 10 FMS CONTRACTORS

(Dollars in Millions)

Fiscal Year	Total Sales	DOD Contracts (rank)	FMS Contracts (rank)	FMS OS % DoD Contracts
		Northrop		
1977	1,601.4	1,046.7 (10)	853.0 (1)	81.5%
1976	1,265.0	1,480.2 (3)	1,292.5 (1)	87.3%
		McDonnell Douglas		
1977	3,544.8	2,574.0 (1)	446.1 (2)	17.3%
1976	3,543.7	2,464.6 (1)	480.5 (2)	19.5%
		Lockheed		
1977	3,373.0	1,573.4 (2)	305.2 (3)	19.4%
1976	3,203.0	1,509.8 (2)	139.1 (9)	9.2%
		General Dynamics		
1977	2,901.2	1,371.5 (8)	303.3 (4)	22.1%
1976	2,553.5	1,073.0 (7)	45.8 (18)	4.3%

		Grumman		
1977	1,564.2	1,428.1 (7)	252.8 (5)	17.7%
1976	1,523.1	982.0 (8)	303.7 (3)	31.0%
		General Electric		
1977	17,519.0	1,519.6 (5)	221.0 (6)	14.5%
1976	15,697.3	1,347.0 (4)	248.1 (5)	18.4%
		Hughes Aircraft		
1977	1,700 (approx.)	1,093.4 [illegible]	156.1 (7)	14.3%
1976	n.a.	910.9 (11)	174.3 (8)	19.1%
		Raytheon		
1977	2,818.3	1,040.9 (11)	149.0 (8)	14.3%
1976	2,462.8	784.4 (12)	218.6 (6)	28.0%
		Mi Ryung Construction		
1977	n.a.	137.7 (50)	137.7 (9)	100%
1976	n.a.	n.a.	n.a.	n.a.
		Litton Industries		
1977	3,442.9	609.0 (16)	120.9 (10)	19.8%
1976	3,369.0	978.2 (9)	258.5 (4)	26.4%

Sources: Company 1977 Annual Reports; *The Defense Department's Top 100* (CEP Newsletter N8-5); and Table I of this *Newsletter*.

Table III

MAJOR PROPOSED LETTERS OF OFFER BY THE U.S. GOVERNMENT FOR FOREIGN MILITARY SERVICES AND EQUIPMENT, FISCAL YEAR 1978.

Transmittal Number	Country	Amount	Item	Date on which Congress was notified
78-1	Israel	$52M	(classified number of) AH-1S Cobra Helicopter with TOW anti-tank missiles	(10/12/77)
78-2	Nigeria	$46M	7 model 161 CH-47C helicopters	(12/17/77)
78-3	United Kingdom	(classified $)	(classified number of) TOW missiles	(10/25/77)
78-4	Israel	$12M	(classified number of) rounds of 60mm and 81mm ammunition	(11/2/77)
78-5	West Germany	$79M	15,000 TOW anti-tank missiles	(11/22/77)
78-6	Australia	$50M	Support material for 2 guided missile frigates	(12/2/77)
78-7	Canada	$13M	1,728 TOW anti-tank missiles	(12/22/77)
78-8	United Kingdom	$200M	30 Chinook CH-47 helicopters	(1/12/78)
78-9	West Germany	$84M	9,000 active optical target detectors for AIM-9L Sidewinder air-to-air missiles	(1/18/78)
78-10	United Kingdom	$40M	(classified)	
78-11	United Kingdom	$72M	500 MK 46 mod 2 torpedoes	(2/15/78)
78-12	Saudi Arabia	$174M	Construction of Military Administration School in Riyadh	(2/10/78)
78-13	Saudi Arabia	$496M	Construction of artillery center and school	(2/13/78)
78-14	Indonesia	$125M	16 F--5E/F fighters	(2/15/78)
78-15	Saudi Arabia	$605M	Support work by the U.S. Army Corps of Engineers relating to the Saudi Ordanance Corps Program	(2/15/78)
78-16	Canada	$11M	123,228 rounds of 81mm ammunition	(3/14/78)
78-17	No letter of offer			
78-18	West Germany	$7M	96 Seasparrow missiles	(3/14/78)
78-19	South Korea	$14M	16 M88A1 tank recovery vehicles	(3/15/78)
78-20	NATO	$89M	Support equipment for up-grading the Nike Hercules air defense system	(3/15/78)
78-21	(classified)			
78-22	Korea	$40M	6 CH-47C helicopters	(3/15/78)

78-23	Australia	(classified $)	Harpoon missile systems	(5/18/78)
78-24	West Germany	(classified $)	Forward looking infrared systems	(3/20/78)
78-25	Switzerland	$50M	11,790 Dragon missiles	(3/28/78)
78-26	(classified)			(4/10/78)
78-27	(classified)			(4/10/78)
78-28	Sudan	$117M	12 F-5E/F fighters	(4/14/78)
78-29	Israel	$9M	60 Improved Hawk missiles and 2 radar test sets	(3/30/78)
78-30	Iran	$46M	Supply support for the F-14 Phoenix missile system	(4/13/78)
78-31	West Germany	$86M	142 Harpoon missiles	(4/20/78)
78-32	Egypt	$590M	50 F-5E/F fighters with AIM 9J air-to-air missiles	(4/28/78)
78-33	Israel	$431M	15 F-15 fighters	(4/28/78)
78-34	Israel	$1,519M	75 F-16 fighters	(4/28/78)
78-35	Saudi Arabia	$2,500M	60 F-15 fighters, with AIM-9J and AIM-7F air-to-air missiles, training and support	(4/28/78)
78-36	Pakistan	$10M	48 anti-submarine missiles with MK46 mod 2 torpedo payloads	(4/28/78)
78-37	Sudan	$71M	6 AN/TPS-43E air defense radar sets	(4/25/78)
78-38	Spain	$11M	4 RF-4C reconnaissance fighters	(5/11/78)
78-39	Spain	$29M	40 Harpoon anti-ship missiles	(5/11/78)
78-40	Iran	$170M	11 RF-4E reconnaissance fighters	(5/23/78)
78-41	Korea	$8M	1,100 TOW anti-tank missiles	(5/11/78)
78-42	Korea	$29M	Supply and support for F-4, F-5, A-37, T-33, T-37 and C-123 aircraft	(5/11/78)
78-43	Korea	$30M	Supply and support for F-4, F-5, A-37, T-33, T-37 and C-123 aircraft	(5/11/78)
78-44	Taiwan	$35M	Supply and support for F-86, F-100, F-104, F-5, T-33, C-119, C-47, and C-54 aircraft	(5/11/78)
78-45	Spain	$14M	102 M113A1 armored personnel carriers, plus 18 mortar carriers and 4 command post carriers	(5/11/78)
78-46	Iran	$125M	Supply and support for Iranian aircraft of U.S. origin	(5/11/78)
78-47	Iran	$33M	Training contract for 41 contractor personnel for Improved Hawk anti-aircraft system	(5/11/78)
78-48	Saudi Arabia	$40M	Parts and supplies for Saudi Naval Supply Center & Depot at Jubail and Jidda	(6/5/78)
78-49	Iran	$56M	Retrofit 172 Iranian aircraft with ALR 62 electronic counter-measures systems	(5/11/78)
78-50	Iran	$130M	Support for Iranian Navy helicopters RH-53D, SH-3D and AB-212 through mid-1983	(5/17/78)

Transmittal Number	Country	Amount	Item	Date on which Congress was notified
78-51	Saudi Arabia	$150M	Technical training for Saudi Naval Forces	(6/5/78)
78-52	Iran	$78M	Engineering changes for F-14 fighter and associated missiles	(5/17/78)
78-53	Iran	$38M	One year spares and support for AH-1J/TOW Helicopoters	(8/24/78)
78-54	Japan	$144M	8 F-15C/D fighters	(5/16/78)
78-55	Japan	$100M	P-3C anti-submarine patrol aircraft plus parts for 5 others to be produced under license	(5/16/78)
78-56	Sweden	$94M	100 Harpoon anti-ship missiles, 12 launchers	(7/10/78)
78-57	Ecuador	$220M	3 battalions (44) Chapparal missile system plus 20mm Vulcan guns	(6/26/78)
78-58	Taiwan	$27M	150 MK-46 mod 2 torpedoes	(6/26/78)
78-59	Tunisia	$23M	60 M113A1 armoured personnel carriers with TOW launchers, 1,200 TOW anti-tank missiles	(6/26/78)
78-60	Spain	$11M	18 155m howitzers	(6/26/78)
78-61	Iran	$68M	Support for F-14 Phoenix missile system	(6/26/78)
78-62	Kuwait	$58M	(classified)	(7/10/78)
78-63	Saudi Arabia	$75M	(classified)	(7/10/78)
78-64	Saudi Arabia	$21M	15 bulldozers	(7/10/78)
78-65	United Kingdom	$56M	Navigation computers and LORAN receivers for U.K. Polaris missile submarines	(7/26/78)
78-66	Saudi Arabia	$460M	Construction of Ministry of Defense and Aviation Headquarters at Riyadh	(9/7/78)
78-67	No letter of offer			
78-68	Saudi Arabia	$35M	One 35 MW power plant at a military cantonment	(9/7/78)
78-69	Israel	$20M	100 GBU15(V)4/B electrical optical glide bomb kits (less warhead), 200 FMU-124 A/B fuses	(8/19/78)
78-70	Israel	$36M	100 Walleye MK1 and 100 MK-22 Extended Range Data Link bombs	(8/11/78)
78-71	Israel	$14M	48,000 175mm High Explosive Projectiles	(8/11/78)
78-72	Iran	$192M	84 8" howitzers and 214 155mm howitzers	(8/4/78)
78-73	Taiwan	$75M	100 155mm howitzers	(8/11/78)
78-74	Australia		(classified)	(9/5/78)
78-75	Pakistan	$10M	40 MK-46 mod 2 torpedoes	(8/11/78)
78-76	Spain	$41M	3 MK-13 mod 4 Guided Missile Launching Systems	(8/11/78)
78-77	Korea	$9M	1,108 TOW anti-tank missiles	(8/11/78)
78-78	Thailand	$34M	Annual ammunition purchase	(8/11/78)

78-79	Iran	$11M	100 M548 tracked cargo carriers with machine guns	(8/11/78)
78-80	Iran	$14M	186 AIM-9H air-to-air Sidewinder missiles	(8/11/78)
78-81	Saudi Arabia	$1,300M	Three year continuation of Peace Hawk training support program	(8/17/78)
78-82	Iran	$39M	2 T-AFT ocean type tugboats	(8/11/78)
78-83	Korea	$24M	37 155mm howitzers	(8/11/78)
78-84	Israel	$19M	200 Shrike missiles	(8/11/78)
78-85	Israel	$24M	170 AIM-7F Sparrow anti-aircraft missiles	(8/11/78)
78-86	Korea	$55M	22 AN/TPQ-36 mortar locating radar	(8/11/78)
78-87	Saudi Arabia	$272M	Construction in Saudi Naval Expansion Program at Jubail	(9/7/78)
78-88	Taiwan	$17M	25 8" howitzers	(8/11/78)
78-89	Thailand	$11M	40,000 2.75" rockets	(8/11/78)
78-90	Spain	$16M	77 M113A1 armored personnel carriers, 33 mortar carriers, 11 command post carriers and 8 cargo carriers	(8/11/78)
78-91	Iran	$350M	Armament suite to equip 12 frigates built in the Netherlands and Germany	(8/21/78)
78-92	Iran	$200M	Helicopter logistics support	(8/11/78)
78-93	Taiwan	$125M	5 batteries of improved Hawk anti-aircraft missiles	(8/11/78)
78-94	Saudi Arabia	$800M	Plan and operate various Saudi Naval Forces bases and facilities	(8/21/78)
78-95	Saudi Arabia	$220M	Training and Support for Saudi Arabian National Guard	(8/17/78)
78-96	Korea	$60M	Spares and supplies for F-4, F-5, A-37 and C-123 aircraft	(8/30/78)
78-97	Canada	$95M	Data processing equipment for 2 Region Operations Control Centers	(9/12/78)
78-98	Iran	$350M	31 F-4E fighters	(9/13/78)
78-99	Iran	$105M	1,000 Shrike missiles	(9/13/78)
78-100	Austria	$47M	50 M60 A3 tanks	(9/19/78)
78-101	Iran	$250M	Depot for maintenance and repair of Hawk, Rapier and Oerlikon weapon systems	(1/19/78)
78-102	Thailand	$15M	4 F-5E fighters	(10/2/78)
78-103	No letter of offer			
78-104	Australia		(classified)	(9/29/78)

Source: *The Congressional Record* and Senate Foreign Relations Committee.

Note: These transmittal notices represent offers by the U.S. government for the sale of military equipment or services, based on an interest expressed by a foreign government—not final sales. The Defense Department estimates that 20-25% of Letters of Offer do not finally result in sales. This list represents $15.2 billion worth of offers (not including the classified dollar value of eight offers) for 1978.

NICOLE BALL AND MILTON LEITENBERG

The foreign arms sales of the Carter administration*

Both in his campaign for the presidency and in the weeks immediately after being elected, President Carter repeated that his Administration would have four primary goals in the area of arms control. These were:

- the reduction of nuclear weapon totals in a SALT agreement;
- the control of nuclear proliferation through supplier-nation limitations;
- the reduction of U.S. conventional arms transfers; and,
- the reduction of the U.S. defense budget.

Two years of his Administration have now passed and some qualified success in the first two goals has been achieved. However, the third—the effort to control and reduce conventional arms transfer—has been nearly a total failure. This article will discuss the political constraints that brought about this situation.

U.S. Senate approval of the controversial package sale of some 200 warplanes to Saudi Arabia, Egypt and Israel last May followed a long and heated debate which focused on the sale of military aircraft to Arab countries—Saudi Arabia in particular. Considering that when Mr. Carter took office some two years ago he promised to cut U.S. arms sales abroad, it is somewhat surprising that very little of the domestic criticism dealt with the question of whether *any* of these planes should be sold. Politics clearly held sway; the vote was seen by many as a test of U.S.-Israeli "special relationship."

While this points up the difficulty that exists in focusing on the issue of foreign arms sales per se, it is clear that the Carter administration is not behaving much differently from its predecessors on this issue.

Between 1950 and 1976, the United States transferred more than $110 billion worth of weapons and military-related services abroad. The two main channels through which these transfers were made are: a grant basis, using the Military Assistance Program; and a cash basis, under the Foreign Military Sales category. Until

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very recently, Military Assistance Program grants accounted for the bulk of these transfers. Foreign Military Sales are currently the largest conduit for U.S. military transfers [1-2]. Since 1972, a sizable amount of Foreign Military Sales has gone to developing countries, particularly Saudi Arabia and Iran [3].

The significant changes in the volume and the pattern of U.S. foreign military sales definitely began in the Nixon and Ford administrations and reflected the routine use of arms sales and transfers as the *quid pro quo* in diplomacy favored by then-Secretary of State Henry Kissinger. Political and diplomatic requirements came to outweigh strategic and security considerations in U.S. arms transfer policy. Some of these transactions were in fact concluded by the Secretary of State against the advice of the Joint Chiefs of Staff and the Department of Defense. The question, however, is whether the practice of using arms transfers as a regular diplomatic and political tool is not becoming institutionalized, despite Mr. Carter's pledges to reduce American involvement in the conventional arms trade.

Our purpose here is to look at:

- some of the most frequently advanced rationales for arms sales;
- the policy of restraint proposed by Mr. Carter in May 1977 and other legal restrictions on the sale of weapons;
- the actual U.S. arms sale situation since May 1977; and
- the resulting apparent early demise of possibilities for genuine reductions in the arms trade.

According to the Department of Defense, the primary purpose of arms sales is "to further the foreign policy objectives and serve the best interests of the United States" through the maintenance of regional military balances and by fostering "stability" in areas where military instability prevails [4]. However, the reality is frequently different:

- The United States has in several instances been the supplier of arms to neighboring nations that consider each other potentially hostile (Iran and Saudi Arabia).
- U.S. military supplies to Iraq under the Baghdad Pact (and not the issue of Israel) were the prime determinant of Nasser's initial acquisition of arms from the Soviet Union and Czechoslovakia. This provided the Soviet Union with an entrée into the the Middle East and the middle eastern conflict.
- A military coup in a recipient country may overnight become a "destabilizing" factor to neighbors which had not felt threatened by the previous regime (Iraq, Ethiopia, for example).
- The very definition of military stability in a country with more than one neighbor that it considers potentially hostile (Peru and Bolivia-Chile or Iraq and Syria-Iran), and thus with planning requirements for arms supplies sufficient to overcome *all* potential opponents, ensures that arms supplies to the region will begin an upward ratchet mechanism, destroying any possible stability.

In addition, it is precisely those developing countries that are hostile to their neighbors—aside from those wanting arms for domestic political purposes or for "show"—that will be the most interested in purchasing arms when they can afford them, and often when they cannot [5].

The study known as "NSC 202"—prepared by the State Department to provide the "basic analysis" for the Carter arms sale restraint policy—offered a number of "arms transfer policy objectives," all centering around the notion that supplier nations can exert significant influence over recipients [6]. It can be argued, however, that arms transfers are but one of many transactions determining one country's hegemony over another, and that it is difficult to isolate their influence from the others. Most leverage seems to result from sole-supplier situations; but here, supplier nations must take into account the risks of armed conflict [7].

It is the Soviet Union which has suffered the most spectacular reversals of influence despite massive arms transfers: in Egypt, in Somalia, in Indonesia, and even in China. Since the United States has had many more arms clients than the Soviet Union, the deterioration of a relationship between the United States and one recipient nation is not seen to be as much of a decline in *overall* U.S. influence as when a U.S.S.R. client rejects the Soviet Union. Nevertheless, in at least two cases—Ethiopia and Brazil—political relationships have been altered drastically between the United States and major arms clients. The United States has also been experiencing difficulty with other client countries, namely Greece, Turkey and the Philippines.

The entire issue of human rights and arms transfers offers evidence that being a country's major arms supplier does not ensure that the supplier's views on human rights will be accepted by the recipient, or that the latter's attitude will change with the threat of cutting off supplies [6, p. 26]. In short, the relationship between arms supplier and recipient is complex. The power to influence actions is not limited to the supplier; recipients—particularly, but not exclusively, the wealthy, resource-endowed ones such as Iran and Saudi Arabia—can exert considerable influence over supplier-nations.

As a presidential candidate, Mr. Carter expressed these sorts of concerns: arms transfers can bring instability; weapons sales are inappropriate means through which to conduct a country's foreign policy. Presumably they contributed to the shaping of his arms sale restraint policy, which essentially rests on six major restraints and is hedged by three major exemptions:

- The first exemption is that none of the restraints apply to U.S. partners in major defense alliances: the 14 NATO countries, plus Japan, Australia and New Zealand. In addition, the United States is pledged to "honor our historic responsibilities to assure the security of the State of Israel." To date, only two Israeli requests have been turned down: for Pershing missiles and for fuel air explosive bombs.
- The second is the President's right to waive any of the restraints

under "extraordinary circumstances."

- Finally, Mr. Carter has emphasized that multilateral supplier-nation cooperation must be exercised—as in the case of the London Nuclear Suppliers' Club—if the global trade in arms is really to be reduced. [8]. In the recent past, neither the Soviet Union, the United Kingdom, nor France—countries which, along with the United States, account for close to 90 percent of the international trade in arms—have shown themselves to be interested in limiting their exports of weapons. France's President Giscard d'Estaing stated publicly that France would not consider any controls on its own arms exports without Soviet participation. U.S.-USSR negotiations on Conventional Arms Transfer were announced in May 1978. After several preliminary discussions in the intervening months, an announcement in late October 1978 stated that the United States and the Soviet Union would begin "concrete negotiations" aimed at creating common guidelines on the supply of conventional weapons to Africa and to Latin America. The negotiations began in December in Mexico City.* The Soviet Union is reportedly interested in the definition of a "code of principles" that would govern arms transfer. Apparently, one concrete suggestion by the Soviets was that each country refrain from selling weapons to any nation on the other's borders. This was an obvious attempt to forestall western arms sales to China. A second suggestion was that the principles ban the supply of arms to nations that refuse to agree to arms control pacts. This too was clearly aimed at China.

The negotiations are structured around defining a framework for potential controls. The framework is to be built around political and legal rules, military and technical criteria, and regional agreements. It will be a distinct challenge for these talks to lead to more significant progress than past negotiations on other highly political arms control issues, such as SALT or mutual and balanced force reductions (MBFR). If the talks do not produce significant results with the Soviet Union, and if France and Britain were to refuse to join in, it can be expected from the tone of President Carter's statement of November 29, 1978 that unilateral U.S. restraints of any sort are not likely to last much longer. In that case, the President may yet invoke the failure of multilateral cooperation as a means of voiding U.S. restraints on any particular sale or, perhaps, on the entire policy.

There are six restraints:

- The first restraint proposed by

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* These negotiations resulted in a debacle, largely due to the actions of National Security Council Director Zbigniew Brzezinski. It is clear that political power considerations will continue to overwhelm any general arms control efforts by the Administration. It is ironic that Mr. Carter's own National Security Adviser was instrumental in making such short shrift of a basic concern of the President's arms control policy. The U.S.-USSR negotiations are the only framework in which one can expect to impose restraints on Soviet conventional arms transfer policy; and other international controls are dependent on U.S.-USSR restraint agreements.

Mr. Carter is that a dollar ceiling be placed on U.S. arms exports and that it be lowered annually. The ceiling has come to be seen as the "cornerstone" of the Carter arms-restraint policy, but in fact it has had no impact on overall U.S. sales. Sales and transfers to the 17 "exempt" countries are excluded from it. In fiscal 1977, these countries accounted for some $1.2 billion of the $11.5 billion in U.S. arms transfers and their purchases rose to $2.2 billion in fiscal 1978 [9].

In addition, certain weapons (notably those sold commercially by American companies) and some weapons-related services (training, construction, administration, technical assistance) are also excluded. [2, p. 4]. According to Arms Control and Disarmament Agency figures, construction, training and administration accounted for 34 percent of U.S. arms trade in fiscal 1976 [10].

Finally, according to a recent General Accounting Office study, the Carter administration used inflated 1977 figures to determine the 1978 arms export "ceiling." Thus, while the Administration claims that the 1978 "ceiling" of $8.55 billion is nearly $700 million less than the 1977 "ceiling," the General Accounting Office reports that the actual reduction is one on the order of $66 million [11].

- The second restraint is that the United States will not be the first to introduce the most sophisticated form of a weapon into a region. But the policy does allow weapons transfers where "countries friendly to the United States must depend on advanced weaponry to offset quantitative and other disadvantages in order to maintain a regional balance" [8, p. 12]. Such a category would seem to offer another substantial loophole in the restraint policy.

- The third restraint is that the development of advanced weapons solely for export would not be allowed. Since very few weapons have so far been produced "for export only" this restriction will have little immediate impact on arms sales levels [2, p. 5], but a trend toward production of "export only" weapons seems to be developing and the future importance of this restraint should not be underrated.

- Fourth, controls are to be placed on the co-production of American weapons under license in foreign countries. About three-quarters of all current co-production agreements, however, are in the 17 exempt countries. Nor are commercial licensing agreements made with U.S. arms producers included here [2, pp. 5-6; 3, p. 6].

- Fifth, contractual restraints may be placed on the transfer of weapons from the original foreign purchaser to a third country when the weapon is sold. But the degree of effective control that can be maintained once a weapon leaves the United States is dubious. [12].

- There is also considerable doubt about adequate enforcement of the sixth restraint. This concerns controls on U.S. weapons firms seeking to sell abroad, and on the cooperative relationship which frequently develops between American corporate representatives and U.S. embassy and military personnel abroad [2-3; 8, pp. 19-25].

Thus, it is apparent that considerable scope exists for circumventing the Carter arms restraint policy. The Administration's failures to comply with its own restrictions are growing in number.

There are at least two other areas in which arms transfer restraints should, by law, be applied but where the Administration has thus far shown itself to be less than enthusiastic in doing so.

- Congress has passed legislation requiring the cessation of military sales, loans and grants to countries in which there is a "consistent pattern of gross violations of internationally recognized human rights." The State Department study, "NSC 202," presented a number of reasons [6, pp. 26-27] why the government should not apply such restrictions across the board. These revolved around loss of influence over such countries and their "collective importance" in terms of U.S. security interests. And despite cutbacks in military assistance to Brazil, Uruguay and Nicaragua on human rights grounds, the Administration continues to supply them with "domestic repression" instruments: "nonmilitary" aircraft, trucks, shotguns, rifles, shackles, leg-irons, thumbscrews and the like [13]. (It also supplies these items to other human rights offenders such as South Korea, Iran, Chile, the Philippines, Indonesia, the Dominican Republic, and Saudi Arabia—all of which are still able to obtain a full supply of U.S. military equipment.)

- The Arms Export Control Act of 1976 states in Section 35 that the President can terminate arms sales and guarantees to any developing country which diverts development assistance or its own resources to "unnecessary military expenditures" [14]. Each year, the U.S. Agency for International Development (USAID) prepares a report from the President to the Congress on "the quantity and nature of military expenditures" by countries receiving various types of American Assistance [15]. In 1976, some 24 countries were identified as having exceeded "comparative norms" computed by USAID on the basis of percentage of gross national product devoted to military expenditure, the level of military imports and budgetary expenditure. In each instance, it was concluded that the "economic resources intended for economic development were *not* diverted to military purposes" (emphasis added) [15, p. 2].

Had the President wanted to curtail arms sales to any of these 24 countries, it seems likely that the information on which the USAID report was based could have demonstrated that any one of them was "diverting its own resources to unnecessary military expenditure." By adopting the rationales in the report, the Carter administration gave yet another indication that its concern to reduce the global trade in arms is not very strong.

In the first four months following the announcement of the policy of restraint, the Administration sent 45 arms sale notifications to Congress in transactions involving 18 countries and totalling $4.1 billion. Of these, 27 transactions (totalling $3.3 billion) were for less developed countries. Iran alone accounted for ten (totalling $2.2 billion), including the controversial sale of seven E-3A Airborne Warning and Control Systems. This sale, if consummated, would certainly violate Carter's "restraint" of not being the first to introduce sophisticated weaponry into an area.

Also in this period, "agreements in principle" for the transfer or sale of U.S. military equipment were reported with Somalia, Sudan, Chad, Saudi Arabia and South Korea [8, pp. 26-31]. Somalia's expanded activity in the Ogaden at the end of 1977 temporarily halted further discussions; by June 1978, the Administration was prepared to send a military mission to Somalia to discuss the transfer of $15 million in "defensive" arms [16]. The Saudi agreement in principle was incorporated into the recently approved Mideast package deal.

In the same four months, the refusal of only three arms deals was announced. Israel lost its appeal for the right to sell Kfir fighters, fitted with American engines, to Ecuador. A Pakistani request for A-7 fighter-bombers was turned down, as was the Iranian purchase of F-18Ls [8, pp. 31-32]. It has been suggested that the third "restraint"—no development of "export only" advanced weaponry—was aimed at the proposed F-18L deal [17]. In turning down the A-7 request, the Administration cited the desire not to upset the military balance in South Asia. Unfortunately, *both* India and Pakistan have subsequently been offered less sophisticated weaponry.

The Administration has argued, of course, that many of these transactions were "inherited" from the Nixon-Ford years. Some critics have suggested that this was more an excuse than an argument, while others were willing to "wait and see." But the situation seems to be developing badly. In 1977 the Department of Defense had estimated total arms transfers for fiscal 1978 would amount to $13.2 billion. Just before the end of the year, the Administration claimed that the original $13.2 figure would not be exceeded [18]. In fact, figures released on October 1, 1978 showed a total of $13.7 billion in arms and arms-related transfers.

The Administration claimed that the 1978 "ceiling" of $8.55 billion—which in any case the GAO demonstrates should not have exceeded $8.0 billion—had been maintained [9]. But this was accomplished by deferring the final transactions on several orders until fiscal 1979 and 1980 [19]. It is also possible that the $1 billion in sales to some countries (Guatemala, Mexico, Taiwan and Pakistan), which Undersecretary of State Lucy Benson cited as having been rejected will surface once again in future years [18].

Just over one year after unveiling a policy designed to curb the "spiralling arms traffic" the Carter administration succeeded in getting Congress to lift the ban on arms sales to Turkey, where Turkish forces used American equipment while invading

Cyprus in 1974* and the United States was seeking a lever to bring Turkey to the negotiating table with Greece. Mr. Carter and some members of the Congress held that the arms embargo was having the opposite effect: Turkey refused to negotiate "under duress."

More important, however, have been two political considerations. The first centered around fears of the weakening of NATO's southeastern flank and indications of Turkish diplomatic initiatives toward Warsaw Pact nations. The settling of the Cyprus conflict would clearly be the greatest factor in repairing NATO ties and the Administration assumes that arms supplies are the means to that end. The second concern was the Turkish threat of permanent closure for U.S. military bases temporarily closed in 1975 to protest the arms embargo. After the ban was lifted, however, it was revealed that only five bases had been shut down, not 26 as originally reported. Of these five, four which are strategically important USSR-listening posts were to be opened as soon as possible [20].

There are several other proposed arms sales which suggest that the Carter administration is using foreign military sales as a diplomatic and political tool on a regular basis [8, p. 1].

While visiting Indonesia in May 1978, Vice President Mondale reportedly told Jakarta that if "human rights" were improved Indonesia would be allowed to buy the squadron A-4s it had been seeking [21]. Indonesia has from 50,000 to 100,000 political prisoners and it was the U.S. State Department's position that at least some of these should be released before the A-4 deal could proceed.

The "human rights" issue aside, the A-4 deal has some curious aspects. Each plane is being sold at a fraction of cost. Furthermore, the 28 planes sold will be reconditioned to produce 14 to 16 operational aircraft. The work will be done by private DOD contractors and the cost will not be included in the sale price. This bookkeeping trick will keep the recorded price below $7 million, so that Congressional approval is not required, as it is for sales in excess of $7 million [22].

Discussing the sale of a squadron of F-5Es to Thailand, Mr. Mondale is quoted as stating that "These deals are not headline items at home. But they are important symbols to these countries of our support" [21]. One could easily think of other "symbols" that the American government might offer and which might actually benefit these countries economically and socially. Such alternatives, however, do not seem as attractive to government leaders, either in donor or recipient countries, as squadrons of warplanes, radar systems, frigates, missiles and the like.

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* It is interesting to note that when Israel violated the terms of transfer of U.S. cluster bomb munitions by using them in Lebanon earlier in 1978, Administration officials and Senate members stated that they "preferred not to think about the violation." The Administration was, of course, in the midst of pushing its Mideast plane package through the Congress.

Third World opposition has been at least partly responsible for the failure of attempts to deal with the conventional arms transfer issue in the U.N. General Assembly. At the same time, many developing countries claim that a policy of restricting the international arms trade looks to *them* as if the industrialized seller nations were attempting to maintain the military predominance of rich countries. Indeed, much of the material generated prior to the U.N. Special Session on Disarmament has emphasized the need to reduce Third World arms purchases [23].

In fact, neither the major arms suppliers nor Third World recipients are eager to see arms sales restraints imposed. The industrialized countries have no intention of reducing their own production and consumption of weaponry. Third World countries are in no way forced to buy arms; they actively seek them. It is conceivable that they would attempt to oppose *constraints under* any conditions, even if the industrialized nations limited *their own* conventional arms acquisitions.

The U.N. Special Session evoked a number of suggestions for dealing with the conventional arms race. An Aspen Institute paper called for a ceiling to be set on the percentage of gross national product (GNP) devoted to every form of military expenditure by all countries [24]. But developing countries might argue that, because the United States and the Soviet Union have such large GNPs, this system inherently accepts the continued predominance of the major powers. At the same time, it must be recognized that a seemingly low percentage of GNP devoted to military expenditure can mask a substantial diversion of budgetary resources to military purposes (See table).

It seems clear that despite the Carter administration's stated policy, there is little chance of a sharp drop in U.S. sales. And without such a drop, there is almost no chance for reductions by the other major world arms suppliers.

An early and highly important decision taken by the Administration was to accept the entire $27 billion backlog of Foreign Military Sales orders negotiated during the Nixon and Ford years. By the beginning of fiscal 1979, there was a $43.5 billion backlog of deliveries stretching to 1986 [25]. Thus, while the Carter administration may refuse an arms sale here or there, the number of U.S. weapons actually delivered will not decline during Carter's present term of office, nor is it likely to do so if he were re-elected in 1982. Furthermore, it has been hinted that the oil-exporting Mideast countries and South Korea might join the list of "exempt" countries when future arms sale "ceilings" are computed [26].

The announcement of the $8.4 billion fiscal 1979 "ceiling" did not list any new exemptions. But the President did indicate, in announcing the new "ceiling," that future "ceilings" on U.S. arms sales to nonallied Third World countries

Comparison of Military Expenditure in Selected Less-Developed Countries as Percent of National Budget and of Gross National Product

Country	*Military Expenditure*	
	National Budget[a] *(Percent)*	*GNP*[b] *(Percent)*
Yemen, Democratic	57.8	10.50
China, Republic of (Taiwan)	42.8	7.03
Pakistan	33.5	5.68
Yemen	47.6	5.26
Malaysia	17.1	4.85
Korea, South	29.7	4.53
Lybia	10.9	3.51
Zambia	13.3	3.31
Sudan	17.7	3.18
Tanzania	11.0	3.15
India	25.3	3.03
Morocco	10.0	2.74
Mali	17.7	2.48
Ethiopia	18.0	2.33
Central African Empire	9.0	2.30
Algeria	7.3	2.28
Bolivia	15.7	2.24
Brazil	25.4	2.05
Venezuela	5.5	1.99
Togo	13.7	1.83
Afghanistan	14.8	1.61
Haiti	27.0	1.31
Paraguay	14.7	1.27
El Salvador	9.6	1.25
Jamaica	3.3	0.64

[a] Data derived from Leitenberg and Ball, "The Military Expenditure of Less Developed Nations as a Proportion of their State Budgets. A Research Note," *Bulletin of Peace Proposals* 8:4 (1977), 312–314.

[b] U.S. Arms Control and Disarmament Agency; *World Military Expenditures and Arms Transfers*, 1966-1975 (Washington, D.C.: 1976), Table II, pp. 19-54.

will depend on cooperation by other major supplier-nations [27]. U.S. arms producers are pushing for an end to the restraint policy, pointing out that other arms suppliers are only too eager to take advantage of the few cases in which the U.S. does refuse to make a sale [25, 28]. The prospects for a "London Group" type arrangement for conventional arms sales control are not promising. Few expect such an outcome. Once the United States drops its attempts at reducing its own foreign arms sales, *it will be impossible for the Administration to push other arms producers to reduce their sales.* At the same time, the Administration appears unable to continue its own minimal controls without participation by the other major supplier-nations, particularly the Soviet Union.

Thus, without some rapid and significant results from the U.S.-USSR negotiations, it is very unlikely that any significant change in world arms trade will occur as a result of the arms sales restraint policy enunciated by President Carter in May 1977. On the other hand, should the conventional arms transfer negotiations produce results, it will be a very strong indication that a prior unilateral policy change by the United States set the conditions for multilateral controls.

According to press reports in late December 1978 the situation in Iran prompted the Joint Chiefs of Staff to suggest that particular advanced military hardware sold to Iran in recent years be dismantled, destroyed or removed if the crisis worsens. Clearly, another criterion for arms transfers should be—should always have been—that no piece of military equipment should ever be sold to a nation if the donor nation feels that it would be necessary to retrieve or to destroy it under a change of government in the recipient nation. Ironically, the same press reports told of increased U.S. arms transfers to Pakistan, Turkey and various Arab nations, and possibly even the development of a new "special relationship" with India of the sort that the U.S. has had with Iran since 1970.

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A longer version of this article will appear in *Alternatives, a Journal of World Policy* this spring.

THE IMPACT OF FOREIGN MILITARY SALES ON THE NATIONAL INDUSTRIAL BASE*

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IN BRIEF

The DOD Security Assistance Program to export military equipment and provide support services to our allies is a valuable instrument of U.S. foreign policy in assisting to maintain world stability without direct intervention, while preparing and encouraging recipient nations to provide for their own defense. The grant aid programs of the postwar years have been largely replaced in recent years by programs overseen by Congress for foreign military sales, as foreign nations of the Free World develop their own financial resources. Foreign military sales benefit the U.S. economy by contributing to a favorable trade balance, supporting U.S. industry with ongoing R&D and production, as well as maintaining employment levels. A sustained level of defense-related industry, crucial to our national economic interests, is an essential element of military readiness.

> "Diplomacy without armaments is like music without instruments."
>
> —Frederick the Great and Sir Edmond Grey

The United States government, through the Department of Defense, provides defense articles and services to foreign nations under the DOD Security Assistance Program. Benefits which accrue (to both the distributor and the recipient) are many. But the most important single benefit today is world stability.

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Today, the Security Assistance Program consists of three primary subprograms: Grant Aid Military Assistance, commonly known as "MAP"; the International Military Education and Training Program, another grant aid program; and Foreign Military Sales, or "FMS." The public seems to perceive, however, the entire program in terms of "arms sales." This label is a misnomer. Since 1950 only 40.5 per cent of all government-to-government military exports have consisted of weapons and ammunition. The remaining 59.5 per cent have been made up of spare parts (16.2 per cent), supporting equipment (12.3 per cent), and supporting services (31.0 per cent).[1]

The conclusion one draws from these figures is that a significant portion of the Security Assistance Program has a nation-building role. The program introduces facilities, equipment and skills that benefit the civil sector in the development of its national infrastructure. In the long term, recipient nations are better prepared to take care of themselves without direct U.S. involvement—particularly during armed crises.[2]

Since 1950, the Military Assistance Program (MAP) and its counterpart in Southeast Asia, the Military Assistance Service Funded Program, has distributed more than $60 billion worth of military goods and services around the world.[3] As war-ravaged nations and developing nations gained economic strength, increasing numbers of them sought to provide for their own defense. Indeed, they were encouraged to do so by the United States.

Security Assistance Legislation

The United States began supplying its friends when Hitler was menacing Europe.[4] A licensing system for exporting arms was established in 1935. It was followed by the Neutrality Acts of 1936, 1937 and 1939. In March 1941, the Congress passed the Lend-Lease Bill, to create, in President Roosevelt's words, "an adequate arsenal of democracy." Under the bill, the British, the Russians, and others were to be "loaned" arms which they would replace or return after the war.

After World War II nearly all foreign assistance was in the form of grants. From 1946 to 1948, this assistance, principally to Greece and Turkey, totaled $481 million. This "postwar relief" period was followed in 1949 by the Mutual Defense Assistance Act which resulted in $3 billion in military assistance to our allies. President Truman summarized that U.S. aid policy in these words:

> The concept of peace for the United States has become indistinguishable from the concept of peace in the world as a whole. American security and well-being are now dependent upon, and inextricably bound up with, the security and well-being of free people everywhere.[5]

It is important to note that the U.S. has phased down grant aid in favor of cash and credit sales, as our friends and allies are increasingly able to meet their defense needs with their own financial resources. During the first half of the past decade, for instance, grant aid processed by the Air Force averaged $478 million annually, but in the 1970s this figure has shrunk to $153 million per annum.[6] In FY 1965, forty-three countries received MAP material; in FY 1978 only eight countries are projected to receive grants of material.[7]

In total dollar terms, FMS has, over a remarkably short span, far outstripped grant aid expenditures. Since 1950 the Department of Defense has recorded about $57 billion in FMS agreements.[8] Actual cumulative gross payments by foreign countries through FY 1965 total more than $8.5 billion, averaging more than half a billion dollars a year.[9] After climbing from slightly under $1 billion in FY 1970 to nearly $5.8 billion in FY 1973, new orders rose to $10.6 billion and $10.1 billion in FY 1974 and FY 1975, respectively.[10] Last fiscal year the total declined to $8.7 billion.[11]

Of course, legislation has kept pace with increasing foreign military sales. The Mutual Defense Assistance Act of 1949 is the progenitor of present day controls on foreign military assistance. The Mutual Security Act of 1954 assigned the President responsibility for controlling "the export and import of arms, ammunition, and implements of war, including technical data related thereto." The 1954 Act was *superseded by the Foreign Assistance Act of* 1961 and the Foreign Military Sales Act in 1968, which separated sales legislation from grant aid legislation. Secretary of State Dean Rusk summed up the intent of security assistance legislation:

> Our foreign policy goal is to assist in the development of a stable world community [of] free and independent nations. . . . This legislation will permit the financially independent countries of the free world to buy from the United States equipment needed to bear their share of the common defense burden.[12]

In 1976 the Foreign Military Sales Act was revised and retitled the Arms Export Control Act. The FMS legislation re-emphasizes that the Secretary of State "shall be responsible for the continuous supervision and general direction of sales . . . determining whether there shall be a sale to a country and the amount thereof." There is an additional control. Congress annually establishes ceilings on grant aid and foreign military sales.[13] Last year, the Congress, through the Arms Export Control Act, gave itself authority to disapprove any major defense equipment sale over $7 million and any other sale over $25 million, unless the President certifies that an emergency exists which requires the sale in the United States' national interest. This Congressional authority extends to government-to-government and direct commercial sales by U.S. contractors.

This is only one of the important provisions of the International Security Assistance and Arms Export Control Act of 1976. All sales of defense articles of $25 million or more must go through government-to-government channels except sales to NATO countries. In addition, the Act eliminates all Military Assistance Advisory Groups as of September 30, 1977, except as may be authorized by Congress.[14] Additionally, after that date, there will be no grant material assistance except as specifically authorized by Congress on a country-by-country basis. The Arms Export Control Act expressed as the "sense" of the Congress, which is a policy statement and thus has no force in law, that aggregate annual sales under this Act should not exceed current levels.

This growth in legislative control came about as the international system became more politically diffused and more economically interdependent, and our security assistance objectives more complex. It is in response to this complexity that the Congress has seen fit to call for a Congressional review of all major defense sales in addition to careful evaluation of such sales by the Department of State and by the Department of Defense. Under the legislation, the Secretary of State bears the responsibility for determining that a given sale of goods and services would serve the U.S. national interest.

FMS and U.S. Foreign Policy

As a result of the Security Assistance Program, the bulk of which now comprises foreign military sales, the United States has forestalled possible communist sales or influence in a number of key foreign nations: Iran, Saudi Arabia, Morocco, Jordan and several Latin-American countries. Furthermore, the United States is maintaining ties with some sixty nations which are receiving grant aid, FMS, or a combination of the two. These associations provide a subtle leverage when one considers the long-term logistical support required for modern weapons. Similarly, even older, less complex weapons and equipment require additional ammunition or replacement parts. On a broader scale, FMS helps create an international economic bond which affects our world political relations in a very positive way. A recent study by the General Accounting Office asserted that FMS is "a useful and highly effective instrument of foreign policy."[15]

It is a fact of life that many nations must purchase from foreign sources at least some of their military hardware and supporting services; they do not have the industrial base to provide all of the equipment they need. Thus, FMS is truly the cornerstone of national security for many of our friends. Prime Minister Yitzhak Rabin has even stated that Israel's "very existence would be in real danger" should the United States withdraw its support.[16]

From a Department of Defense perspective, the FMS program is an effective tool of national foreign policy which complements the armed forces' defense role and its national security mission. Additionally, the program "supports the military goal of collective security, provides the United States with a first line of defense outside its immediate territory, and enhances U.S. ability to respond to perceived threats." [17]

Except in the most extreme circumstances, security assistance significantly reduces the probability of direct American involvement in regional disturbances. And even if U.S. involvement or emergency support becomes necessary, the national logistical base (kept vibrant, in part, by FMS) would facilitate a rapid American response. In either eventuality, the merit of a well-planned FMS program is clear.

FMS Benefits to U.S. Economy

Economically speaking, foreign military sales produce a number of other benefits for the United States. Mr. T. A. Wilson, Chairman of the Board of the Boeing Company, states that "International commerce is critical to our nation's economic well-being, and foreign sales of all U.S. products and services accounted for about $140 billion in 1974, while providing jobs for more than eight million people." Regarding commercial and military contracts, he said, "Aerospace export sales have exceeded $7 billion each year since 1973, and reached nearly $8 billion in 1975." These figures represent a major contribution to the favorable trade balance of $11 billion in 1975.[18]

Foreign Military Sales has contributed its share to that favorable balance: about 7 per cent of all U.S. exports are FMS transactions.[19] Although the Defense Department handled $10.1 billion[20] and $8.7 billion in new FMS orders during FY 1975 and FY 1976, respectively, it delivered only $3.4 billion and $4.1 billion[21] during those two years. Because of the inherent lag time in manufacture and distribution, FMS deliveries often are made three to five years or longer after orders are placed. From 1966 to 1971 the backlog averaged $5.3 billion; in 1975 the total reached $24 billion.[22] Last fiscal year the backlog was almost $32 billion.

The program's scope generates very tangible benefits for the U.S. work force. In fact, thousands of American workers owe their jobs directly or indirectly to FMS. The Department of Commerce has estimated that about $8 billion worth of military and civil export business by the aerospace industry alone would provide about 192,000 full-time jobs for Americans. The Defense Security Assistance Agency, which supervises the DOD Security Assistance Program, has estimated that each $1 million in FMS creates fifty new jobs and keeps fifty existing jobs active among subcontractors and vendors outside the immediate aerospace industry.[23] Such a formula would suggest that some 800,000 Americans owe their employment to $8 billion in foreign military sales. Industry officials have computed that every billion dollars of sales abroad creates 31,000 direct jobs plus another 60,000 in the support business. This formulation yields an estimate of more than 700,000 jobs produced from FMS totaling $8 billion. Irrespective of how one does the arithmetic, it is evident that a sizable number of Americans are employed because the United States seeks to help other nations defend themselves.

Security assistance also makes it less costly for the United States to defend itself. Production lines are kept open longer, thereby reducing unit prices. The Congressional Budget Office has estimated that an $8 billion sales program will, on the average, generate $560 million in cost savings annually. Of these savings, "approximately $160 million represents savings which are attributable to research and development (R&D) recoupments."[24] Dramatic savings do evolve from the sale of sophisticated aircraft. Because of FMS commitments, the F-14 is costing the U.S. about $155,000 less per aircraft; similarly, the F-16 will also cost significantly less per aircraft.

As noted, research and development costs, as well as production and administrative costs associated with FMS, are charged to the purchasing government. In this way foreign sales are recovering a substantial part of U.S. R&D costs. This help is especially significant, given that funding for Air Force research, development, testing, and evaluation has edged upward only slightly from $3.6 billion[25] in FY 1964 (the last stable year before Vietnam) to $3.8 billion this fiscal year. Considering the effects of inflation on the dollar, this modest increase actually represents stagnation in U.S. technological development. Sales of equipment that entailed an extensive R&D effort could result in a substantial recoupment of R&D funds.

Foreign military sales eliminate gaps in production lines, keep facilities open, and retain skilled employees. The FMS program thereby maintains at least a portion of the national industrial base that could not be sustained otherwise. Jacques S. Gansler, Deputy Assistant Secretary of Defense for Materiel Acquisition, told Congress last November that foreign military sales have "helped us to maintain the viability of the declining base, reduced procurement costs [to DOD], and improved our international balance of payments."[26] Significantly, these gains have been made during a time of reductions in real procurement expenditures by the U.S.

Operational Readiness

The United States simply cannot have a credible deterrent force without effective logistics, a system which one of my predecessors at AFLC labeled "The Logistics of Deterrence."[27] This concept recognizes that when the enemy assesses our forces, he values only those forces which the logistics community has ready for combat, or can get ready in time, and then sustain for a requisite period of combat. The operational readiness of the defense establishment therefore stands squarely on the readiness of its logistical system and of the nation's industrial base.

The United States requires a vibrant industrial base for the survival of the republic. Our protective military shield depends on industry to provide the missiles, aircraft, ships, tanks and guns which deter aggression. Likewise, the armed forces and their logistic systems depend on American industry to replenish their supplies and to repair much of their equipment. In short, military readiness directly reflects industrial readiness. The sustenance which industry provides the military is required *now*, in advance of any contingency. The existing industrial base of this nation may well determine our future. Looking ahead, we will not have the luxury of time to build our defenses or retaliatory forces. Future conflicts may well be "come-as-you-are" wars. We shall be able to fight initially only with the weapon systems, ammunition and spare parts which the military and industry have stockpiled.

Should a conflagration continue over a prolonged period, we shall succeed only if the existing industrial base can shift quickly into high gear. The industrial plants, the skilled manpower, and the raw materials must be immediately available. We shall need additional munitions, of course. But we shall also require thousands upon thousands of replacement parts for sophisticated and complex weapon systems. Only a dynamic, responsive industrial base can help satisfy these requirements in our quest for deterrence in peace and victory in war.

Effects on Defense Industry

Creating and sustaining a high level of defense-related industrial commitment is not easy. Inflation, higher labor costs, manpower reductions, and tight budgets have hindered the military and business alike. Even with the increasing FMS orders mentioned earlier, fewer corporations are seeking defense contracts. They cite a low volume of potential orders, low profits, excessive paper work, and an air of uncertainty emanating from Washington.[28] J. Stanley Baumgartner of the Defense Systems Management College found that defense business in FY 1975 constituted less than 10 per cent of the total business of the top twenty-five defense contractors, down from 17 per cent in 1968.[29] For many contractors, the civilian market is simply far more lucrative. Another DOD study revealed last year that contractors earn an average profit of 4.7 per cent [30] on military sales while earning 17 per cent [31] on similar products sold to commercial customers, though this comparison does not include a corresponding one for private investment. When coupled with auditors and quality-control inspectors, the restrictive atmosphere has discouraged potential defense contractors.

Approximately three years ago, the Department of Defense became concerned about these problems developing in the industrial base. Deputy Assistant Secretary Gansler addressed the situation last November before the Joint Defense Production Committee of the Congress. He noted that difficulties were being encountered then "by prime contractors . . . in obtaining adequate compensation for parts and components. Subcontractors were declining to bid . . . and, to keep their share of the defense market, some large prime contractors, through acquisitions and expansions, began entering the subcontract field. As a result, competition decreased and, in some cases, inordinately high prices were being paid for parts and components." [32]

Gansler also noted that prime aircraft contractors were finding themselves with extra capacity because of decreasing commercial and defense business. "We also observed," he said, "an aging of plants and equipment with little investment being made to increase productivity. . . . Innovations in engineering and manufacturing technology appeared to be sagging because of the lack of business. We became concerned that our needs for a viable . . . base, capable of responding to emergency demands, were becoming threatened."

Satisfying the legitimate defense needs of our allies and friends through FMS has partially offset this problem. More permanent solutions are being suggested and implemented by the Defense Department. Perhaps the most important of these initiatives is one which permits corporation accountants to include the cost of capital (imputed interest) in their computations of expenses and anticipated profits.[33] By making capital investment an allowable contract cost, the government is motivating industry to bid for defense contracts and to invest in new facilities. In the long term, industry receives a higher profit and achieves increased efficiency and productivity. Additionally, defense benefits form a stronger industrial base and lower costs.

Other procurement policies and practices may need to be modified to attract the smaller suppliers and contractors. In the meantime, "We are providing for more flexibility in our military specifications and encouraging greater use of commercial parts, and multiple sources of supply in . . . subcontract procurement. . . . These initiatives will help to broaden our competitive base, reduce procurement cost, and improve our surge capability at this 'bottleneck' level of the [industrial] base." [34]

Foreign military sales in recent years have helped the United States to maintain the viability of its declining industrial base. But we must consider this phenomenon a bonus derived from the principal American effort—to help its friends and allies help themselves. Such mutual assistance is of primordial importance in achieving that state of readiness which Karl von Clausewitz described:

> In the search for peaceful solutions to the controversies between states, we must not forget to always keep our eyes fixed on the adversary, so that if he decides to wield a sharp sabre he may be met with something more than a dress sword.

Foreign governments have requested security assistance from the United States in order to sharpen their sabres and in order to preserve their political stability. Our government has granted their requests and, in so doing, we have strengthened our own sagging industrial base. Much more remains to be done. The production and supply capacity embodied in the industrial base is the foundation for the Department of Defense's logistic system, which, in turn, is the cornerstone of its operational forces. The role of FMS in sustaining and enriching this relationship is, I submit, crucial to the national well-being.

NOTES

1. U.S. Department of Defense, "Worldwide Military Assistance Programs, Breakout by Category and Year," Defense Security Assistance Agency (DSAA) Comptroller, Sept. 8, 1976. (Mimeographed.) (Hereinafter referred to as DSAA Breakout.) Weapons and ammunition are described to include "fighter aircraft, bombers, destroyers, submarines, tanks, artillery, machine guns, rifles and missiles," and all ammunition. Supporting equipment includes "trainer and cargo aircraft, tankers, tugs, barges, trucks, trailers, radar and communications equipment, and other equipment and supplies." Supporting services include "construction, supply operations, training, technical and administrative services." (Some data and material in this and subsequent references to publications of the Defense Security Assistance Agency have been updated by the Data Management Division and other offices in that agency. A revised DSAA publication reflecting these new figures is currently being printed.)

2. A survey conducted in May 1976 by the Gallup organization for Potomac Associates indicates that Americans generally favor supporting their allies and foreign friends. See Robert W. Tucker, William Watts, and Lloyd A. Free, "The United States in the World: New Directions of the Post-Vietnam Era?", *Policy Perspectives*, Washington, D.C.: Potomac Associates, 1976.

3. Colonel M. T. Smith, USAF, "U.S. Foreign Mili-

tary Sales: Its Legal Requirements, Procedures, and Problems" (paper prepared for the Conference on Implications of the Military Build-up in Non-Industrial States, International Security Studies Program, The Fletcher School of Law and Diplomacy, Tufts University, May 6–8, 1976), p. 6.

4. Much of the history of the Security Assistance Program is condensed from the work (*supra*) prepared by Colonel Smith, now assigned to Headquarters Air Force Logistics Command.

5. U.S. Department of State, *First Semiannual Report on the Mutual Defense Assistance Program*, Washington, D.C.: U.S. Government Printing Office, 1950.

6. U.S. Department of the Air Force, *USAF Summary, October 1976*, Directorate of Management Analysis, Comptroller of the Air Force, p. FIN 16.

7. U.S. Department of Defense, *Congressional Presentation, Security Assistance Program, Fiscal Year 1977*, I-2, 499/76, Defense Security Assistance Agency, March 8, 1976, p. 1. (Hereinafter referred to as DSAA Presentation.)

8. DSAA Breakout.

9. U.S. Department of Defense, *Foreign Military Sales and Military Assistance Facts*, Defense Security Assistance Agency, November 1975, p. 14. (Hereinafter referred to as DSAA Facts.)

10. Ibid.

11. News Briefing, Office of the Assistant Secretary of Defense for Public Affairs, Washington, D.C., October 26, 1976.

12. Secretary Rusk was quoted by Under Secretary Nicholas B. Katzenbach in a letter to the Committee on Foreign Relations, United States Senate, Ninetieth Congress, Second Session, Washington, D.C.: U.S. Government Printing Office, 1968.

13. There is a third general category of military exports: commercial sales, private firms dealing directly with foreign governments under State Department scrutiny. Commercial sales deliveries totaled about $636 million and $829 million in FY 1975 and FY 1976, respectively. They are expected to reach $1.2 billion this fiscal year; see DSAA Presentation, p. 23.

14. Military Assistance Advisory Groups assist foreign governments in preparing their grant aid requests under the Military Assistance Program.

15. U.S. Congress, *Foreign Military Sales—A Growing Concern, Departments of State and Defense*, ID-76-51, Report to the Congress by the Comptroller General of the United States, June 1, 1976, p. 4. (Hereinafter referred to as GAO Report.) The report also stated that the State Department used U.S. security assistance "as a means to obtain a more flexible response from Israel in the Middle East negotiations."

16. George Michaelson, "An Interview with Israeli Prime Minister Rabin: Our Very Existence Depends on the U.S.," *Parade*, October 3, 1976, p. 6. The Congress has introduced into the Foreign Military Sales Program a concept of "forgiveness of payments" in the case of sales to Israel. For fiscal years 1974 through 1977, the total may reach $2.85 billion; see DSAA Presentation, p. 6.

17. GAO Report, p. 4.

18. T. A. Wilson, address to the National Security Industrial Association, Washington, D.C., March 18, 1976, cited in Air Force Association "Field Service Report," Washington, D.C., April 23, 1976. (Mimeographed.)

DEBATE PROPOSITION THREE

RESOLVED THAT: THE UNITED STATES SHOULD SIGNIFICANTLY REDUCE ITS FOREIGN ASSISTANCE PROGRAMS TO TOTALITARIAN GOVERNMENTS

In recent years there has been considerable controversy regarding linkages between U.S. foreign assistance programs and various other foreign policy considerations. Should the United States provide aid only to countries with which we have a political affinity, or should our assistance be directed to the poorest of the poor nations? Should economic and military grants, loans, and technical assistance programs be allocated to foreign countries primarily on the basis of U.S. strategic interests, or should the distribution reflect America's judgment of foreign nations' respect for the civil and political liberties, physical security and integrity, and basic socio-economic needs of their people? Finally, should U.S. aid be provided or denied to totalitarian states? "Totalitarian state" has been variously defined by different authorities; one useful characterization of such governments includes (1) a commitment to a single goal, (2) unpredictability caused by procedural flux, (3) large-scale use of organized violence, (4) suppression or realignment of organizations that are not committed to the regime's goal, (5) enforcement of universal participation in organizations that are committed to the regime's goal, and (6) attempts to reshape mankind into the image of the totalitarian system.[1] The following articles have been selected to illustrate several positions on these questions. Other material addressing these questions in a more general way is included in the initial section of this volume.

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[1] This description of a totalitarian state is offered by Herbert J. Spiro in the International Encyclopedia of the Social Sciences, v. 15, David L. Sills, ed. New York: The Macmillan Company and the Free Press, 1968, p. 106.

FOREIGN ASSISTANCE AND U.S. POLICY [*]

(By Secretary of State Cyrus Vance)

During the 25 months that I have been Secretary of State, I have regularly appeared before this committee to discuss a wide variety of issues of great importance to our foreign policy. I do so again today as I present the Administration's proposed foreign assistance program for fiscal year 1980, for there is a fundamental relationship between our foreign assistance programs and America's foreign policy.

President Carter is asking Congress to approve an authorization of $8.9 billion for the seven components of our foreign assistance efforts.[1] $1.8 billion for bilateral economic assistance; nearly $2 billion for security supporting assistance; $656.3 million to finance a total foreign military sales financing program of $2.1 billion; $110 million for grant military assistance; $33 million for grant military education and training; $3.6 billion for assistance through the multilateral development banks; and $277 million for our voluntary contributions to international organizations.

In this testimony, I will concentrate on the relationship between these programs and our foreign policy goals. Let me emphasize that, in doing so, I do not suggest that our development objectives need or should be controlled by international political considerations. The fact is that well-conceived and well-executed foreign assistance programs that serve development also substantially benefit our foreign policy by improving our relations with individual developing nations.

Let me begin with a brief examination of one of the most important trends of a new era: the growing economic and political stakes for our country in the developing world.

U.S. STAKES IN THE DEVELOPING WORLD

First, there is the strong link between a sound American economy and continued economic vitality in developing nations.

In 1977 developing countries bought $42 billion worth of U.S. merchandise—more than a third of all our exports. In the agricultural sector, these countries buy about half of all our wheat exports, 60% of our cotton exports, and 70% of our rice exports.

During the 1970's, sales of U.S. goods to developing countries grew by 22% per year compared to 15% for sales to industrialized nations.

Over the past 5 years, developing countries have provided more than 25% of the raw materials we use.

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[1] This figure also includes funds for the food aid program, refugee assistance, and other foreign economic and financial assistance.

[*] Statement before the House Foreign Affairs Committee on February 5, 1979. The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents. U.S. Government Printing Office, Washington, D.C. 20402; (press release 32). This statement taken from Department of State Bulletin, v. 79, March 1979: 24–38.

These statistics demonstrate a very basic fact of economic life in the late 1970's and beyond. We can enhance our own well-being by encouraging and assisting rapid and equitable growth in the developing world.

It is clear that our policies toward the developing world affect individual lives at home as well as abroad.

The price of food in the neighborhood supermarket will be affected by food production progress in the developing world.

Jobs in our factories will depend on growing export markets and on critical raw materials imported from Third World nations.

The incomes of many of our farmers will depend on poor countries earning sufficient income to expand food imports.

Economic growth in the Third World, particularly in the more advanced developing nations, will clearly have an increasingly important and positive impact on growth rates in the industrialized world. Third World development will directly affected both how we live our lives and the kind of world in which our children will live.

While the economic importance of developing nations grows steadily, so does their political role. They now have a major impact on key regional and global issues of concern to the United States.

The most important of these is the research for peace in troubled areas of the world. Conflicts in the developing world pose a danger to world peace, because they can escalate into great power confrontations. Developing nations play important roles in helping resolve conflicts in their regions in two ways. First are the crucial diplomatic efforts of the nations most immediately affected by disputes near their borders. The central contributions of the so-called front-line states to the peace process in Namibia is a case in point. Second, as in the United Nations and other multilateral organizations, such as the Organization of American States and the Organization of African Unity, enhance their peacekeeping roles, developing nations become all the more important.

In a number of other significant areas, our political relations with the developing world affect our ability to attain goals of critical importance to the American people.

We will make little progress in halting nuclear proliferation unless we can convince those developing nations which might otherwise acquire dangerous nuclear technology that they can meet their energy and security needs without.

Establishing a greater respect for human rights—both political and economic—depends largely on a growing recognition among developing nations that healthy societies must defend and nuture the dignity of the individual.

We cannot restrain the dangerous growth of conventional arms unless developing nations become convinced that this type of arms control enhances their security.

The battle against pollution of our oceans and our atmosphere cannot be won unless we enlist the developing nations in this struggle.

Progress toward each of these goals depends on the practical decisions of many different governments. Our ability to influence those decisions requires more than exhortation and imaginative diplomacy. When we ask a poorer nation to work with us for peace or to forgo sensitive nuclear technology or to build a society that is more equitable, our influence will depend in part on our ability to offer tangible support for its security or energy development or economic growth.

We will be more effective in asking developing nations to share our goals for a better and safer world if we are willing to help them achieve their goals of better and safer lives for their own people. This basic reciprocity lies at the heart of the relations with the Third World.

In a broad context, the levels of our foreign assistance are judged as a signal of our seriousness in the so-called North-South dialogue.

This dialogue is conducted in a wide variety of settings where industrialized and developing nations meet to share ideas, exchange views, and negotiate. We have often spoken of the need for this dialogue to be a positive one which would avoid the rhetoric of confrontation. But our position in the many North-South negotiations, which will take place in 1979 and 1980, can only be sustained if we are willing to bear our fair share of the financial burdens and work with others in addressing global economic problems in a positive fashion.

At a more direct level, our aid is one of the strongest and most tangible links between the United States and the nations of the developing world. Trade and investment have a central and significant impact on developing country economies. Our economic aid is also of particular importance through its direct impact on the lives of the poor. And it is the most visible expression of our interest in the economic well-being of developing nations.

It is not our policy to let short-term political considerations govern our decisions about development assistance. But our development policy and our diplomacy in general must be carefully integrated, in part because the governments of nations receiving our aid often interpret this as either a signal of deteriorating interest in them or a sign of American weakness and withdrawal.

Our aid also helps buttress the strong sense of national independence and identity among the developing nations which is the surest barrier to domination by outside powers.

This point is important in both long-term and short-term contexts.

In the long run, we can be confident that the relationship between the West and developing nations will remain positive. These relations are based solidly on our mutually beneficial economic ties, on Western acceptance of political diversity and support for human freedom, and on the cultural affinities which have enriched all our peoples.

We cannot, however, disregard the shorter term and rely only on our long-term advantages to deal with Soviet activities in the Third World.

Some have argued that we should seek to force Soviet restraint by abandoning efforts to achieve agreements that are deeply in our national security interests—for example, a sound SALT agreement. We believe that such an approach is likely to be ineffective and damaging to our interests.

A better response is to continue to take an affirmative approach of active engagement in the Third World itself, to concentrate on our ties with developing nations because of their inherent importance. Such an approach requires our seeing Third World Problems in their own terms rather than primarily through an East-West prism. And it must be backed up by sufficient resources to address seriously the economic as well as security concerns of developing countries.

This strategy of affirmative involvement and support for the independence and diversity of developing nations serves us well. It capitalizes on the West's inherent strengths. It improves our ties to developing countries in a context which does not force them to make an explicit choice between East and West. It reduces the wider dangers of conflict in the Third World. And the fact is that it is working. Our ties to the members of the Association of South East Asian Nations and in the Asian subcontinent, in Africa, and within the Western Hemisphere are strong and sound. This is reflected not only in the atmosphere of our relations but in our ability to work more easily together at the United Nations and on regional issues.

Let me cite an article I recently read in Nigeria's *Daily Times*, entitled "The Soviet Dilemma in Africa." Its author states that:

> First the Russians move into some African nation, usually at a time when the nation's very survival is threatened. For awhile there is a halcyon period of fraternal collaboration usually cemented by massive infusions of military aid. The nation feels a little more secure and begins to worry about such mundane things as food and hospitals and roads. It turns to the Russians, hoping they will give economic aid as readily as they gave military aid. The Russians say that they don't have the money. The nations turn to the West which is waiting in the wings. A quarrel ensues and the Russians are asked to leave. . . .

The author goes on to conclude:

> This situation in Africa at the present time is such that the Soviet Union is losing out to the Americans, not so much because African countries detest socialism as because the Soviet Union is unwilling to, or incapable of, providing more economic than military aid.

I believe we have every reason to be confident about the future of our relations with the developing world as long as we continue to support their economic development and assist them with the means to provide for their self-defense.

U.S. OBJECTIVES

Our foreign assistance programs have six important objectives which guide us in designing specific programs to help meet the unique needs of each recipient nation.

First, we work to overcome the worst aspects of poverty and help nations achieve self-sustaining, equitable growth primarily through a strategy of meeting basic human needs. We play a major role in the worldwide war on hunger and malnutrition both through our Public Law 480 food assistance programs and through the strong emphasis in our bilateral development assistance on efforts to increase food production, improve nutrition, enhance health care and education, control population growth, and foster rural development.

In Peru's extremely poor central region, there are tragically high infant and maternal mortality rates. We plan to allocate $7.5 million in fiscal year 1980 to increase the access of 2 million rural people to improved curative and preventive health care services.

In Indonesia we will provide further financing for a river basin development project. An estimated 230,000 lowland farmers and laborers will directly benefit from increased crop production and income from irrigation while drainage will improve sanitation and health.

In Africa's Sahel we have been a partner with the World Health Organization and more than a dozen other countries and international institutions in an effort to help control river blindness in the Volta River Basin. This dreaded disease has long prevented the full economic development of some 700,000 kilometers of fertile land in seven very poor West African nations.

Our second objective is to help developing nations strengthen their self-reliance by supporting light industry, technological progress, and improvement of basic infrastructure. In each case, our object is to promote human welfare.

President Carter has proposed the creation of a new U.S. institute for international technological cooperation. The institute would mobilize more effectively the scientific and technological capacity of our country to work with developing nations in creating and adapting technology to solve their critical development problems and in building their scientific and technological capabilities. In its work with the industrializing middle tier nations which no longer receive concessional aid, the institute would operate on a cost-sharing basis.

In Bangladesh we will finance a $12 million rural roads program using labor intensive methods to increase local agricultural production and marketing of agricultural commodities.

In the English-speaking Caribbean, the small and geographic dispersion of the islands limits the market for products grown by small farmers. We plan to work with the Caribbean Development Bank to construct a farm supply and marketing center, a cold storage facility, and improved inter-island transportation designed to increase the production and income of small farmers in the Eastern Caribbean.

Our third objective is to promote the peaceful resolution of disputes by providing economic aid to nations in regions beset by serious conflict.

Our security supporting assistance programs in both Egypt and Israel are vital to the peace process because they support the economic stability of both nations.

Nearly half of Egypt's people live in overcrowded cities. The government cannot provide them with the necessities of life without assistance from the United States and other nations. We will provide Egypt with $750 million in fiscal year 1980 to import the industrial raw materials, spare parts, and other goods needed to maintain essential services and to support projects vital to Egypt's longer term development. This is important to the political stability which is critical to President Sadat's ability to lead Egypt toward peace.

As with Egypt, Israel's ability to provide for the security and well-being of its people is a key factor in its decisions toward peace. Our aid has helped Israel to take the austere measures of devaluation and import reduction needed for efforts to increase its defense capability following the 1973 war. Although Israel's economy is now doing much better, its prospects for steady growth and stability depend strongly on help from the United States. Our security supporting assistance to Israel—$785 million in fiscal year 1980—will provide funds to keep essential imports flowing. We are also providing Israel with $1 billion in needed foreign military sales financing.

Our assistance in southern Africa is crucial to our diplomatic efforts for peace in Namibia and Rhodesia. The security supporting assistance we provide the nations of the area helps them to deal with the severe economic dislocations caused by years of conflict. By promoting

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economic stability in the region, our assistance not only lessens human suffering but also encourages these nations to continue their efforts to resolve conflicts peacefully.

A fourth objective of our assistance programs is to help friendly nations maintain adequate military establishments to strengthen their self-defense. Foreign military sales (FMS) financing, grant military assistance programs (MAP), and international military education and training (IMET) programs, together with FMS cash sales, are the means by which we accomplish this objective.

In accordance with longstanding executive branch policy and congressional directives, we are continuing the shift from grant MAP to FMS financing. We are requesting grant program funds for only four countries in fiscal year 1980—Jordan, Portugal, Philippines, and Spain.

The FMS financing program is a less costly means than MAP for assisting other countries in financing their defense programs. Except for a proposed direct loan of $500 million for Israel on which repayment would be forgiven, FMS loans are eventually repaid and require the appropriation of only $1.00 to guarantee each $10.00 in loans made by the Federal Financing Bank [Department of the Treasury].

The IMET program continues to provide a significant return on a modest investment. It not only develops the technical and managerial competence of foreign personnel to use effectively U.S.-supplied equipment but also enables officers who have or are likely to attain positions of leadership in their countries to learn more about the United States and establish friendships here. We believe that dollar-for-dollar, this is one of our most important programs.

A few examples of proposed security assistance programs in fiscal year 1980 demonstrate their importance.

We are now engaged in an effort to rebuild our important relationship with Turkey. The $200 million FMS credit and $2 million in IMET we wish to provide are designed to assist Turkey in its efforts to maintain a modern armed force capable of performing its NATO role. The $98 million in security supporting assistance is crucial to Turkey's efforts to stabilize its very difficult economic situation; this is important both to Turkey's contribution to the mutual security of the West and also to its capacity as a democratic government to deal with the problems of development.

We are asking Congress to approve for Greece a $158 million program of FMS credits and $1.8 million in military training. This assistance will promote the reintegration of Greek forces into the NATO integrated military structure, enable those forces to meet their NATO responsibilities, and help to insure that the present balance of military strength among the countries of the region is preserved.

One of our most important security programs is for Korea. Peace and stability in Northeast Asia in general and on the Korean Peninsula in particular are of continuing vital importance to our country. This year we are requesting $225 million in FMS financing for support of Korea's 5-year force improvement plan, and this will be supplemented by cash sales. We are also requesting authority to provide $1.8 million in grant military training which will focus on training in the use of newly acquired equipment.

A fifth objective is to help to promote respect for individual human rights and to assist refugees.

Recipient governments are aware that human rights considerations influence the degree of our responsiveness in terms of both levels and types of assistance we extend. President Carter reaffirmed last December that: "In distributing the scarce resources of our foreign assistance programs, we will demonstrate that our deepest affinities are with nations which commit themselves to a democratic path to development."[3]

The content of our economic assistance programs has been designed to encourage more equitable patterns of development and increased participation by poorer people in the development process. This latter goal is enhanced by programs such as Title II under Public Law 480, which benefit the poor through self-help as well as relief programs carried out by private voluntary organizations.

The budget we are presenting today was carefully reviewed by our interagency committee on human rights before it was submitted to the President for final approval.

Our refugee effort is a key element of our assistance program, helping victims of war, civil strife, and human rights violations to find new homes and begin new lives. Given the increasingly critical plight of refugees worldwide, we intend to strengthen our efforts through new legislation and more effective management of programs in all agencies of government.

Our sixth objective is to strengthen international responsibility and the sharing of financial burdens for global development by contributing our fair share to multilateral assistance programs.

Multilateral aid is a particularly effective mechanism because of its leverage in generating contributions by other donors and its mobilization of private capital. The principal reason for this is the use of callable capital which provides financial backing for the banks enabling them to raise the bulk of their funding in the private capital markets.

The advantages of burden-sharing and leverage are most pronounced in the World Bank where on a cumulative basis each dollar we spend has resulted in approximately $50 of lending. In the recent replenishment negotiations for the Inter-American Development Bank, we obtained both increased reliance on callable capital—which, though appropriated, does not give rise to budgetary expenditures.

We have been successful in containing and in some cases reducing administrative expenses of the multilateral banks and continue to make substantial progress in increasing the involvement of these institutions in activities that alleviate extreme poverty.

The contributions of U.N. programs to development also serve to meet human needs.

In the Sudan, the U.N. Development Program is equipping training centers to teach practical skills to over 60,000 undereducated and underemployed people.

In the Philippines, UNICEF supports a unique televised nutritional training program that reaches 15 million students every school day.

Let me note here a matter of special concern. Last year the Congress placed in the State Department's fiscal year 1979 appropriation bill a

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[3] Made at the ceremony on Dec. 6, 1978, commemorating the 30th anniversary of the adoption of the Universal Declaration of Human Rights, for full text, see Bulletin of January 1979, p. 1.

19. Allen J. Mayer with Lloyd Norman and Scott Sullivan, "Anatomy of the Arms Trade," *Newsweek*, September 6, 1976, p. 39.

20. DSAA Facts.

21. Stanley Stack, Defense Security Assistance Agency, Comptroller, Data Management Division, telephone interview, December 8, 1976.

22. GAO Report, p. 6.

23. Ibid., p. 21. Also see U.S. Congress, *The Effect of Foreign Military Sales on the U.S. Economy*, Staff Working Paper, Congressional Budget Office, Washington, D.C.: Government Printing Office, 1976, p. (1). This paper indicates that foreign military sales of $8.2 billion create about 350,000 jobs.

24. U.S. Congress, *Budgetary Cost Savings to the Department of Defense Resulting from Foreign Military Sales*, Staff Working Paper, Congressional Budget Office, Washington, D.C.: Government Printing Office, p. ix.

25. U.S. Department of the Air Force, *The Air Force Budget, February 1976*, Washington, D.C.: Government Printing Office, 1976, p. 108.

26. "Pentagon Revamps Industrial Readiness Planning," *Aerospace Daily*, November 19, 1976, p. 103.

27. General Jack J. Catton, USAF, "The Role of Logistics in Policy and Strategy," *Strategic Review*, Fall 1973, pp. 6–12.

28. "Has Military-Industrial Romance Turned Sour?" *U.S. News and World Report*, September 13, 1976, pp. 51–52.

29. "Defense Industry: Is the Foundation Crumbling?" *Government Executive*, March 1976, p. 19.

30. Dale R. Babione, "Profit '76 Revisited: DOD Revamping Its Profit Policies for Defense Contractors," *Defense Management Journal*, October 1976, p. 43.

31. *U.S. News*, p. 52.

32. *Aerospace Daily*, pp. 102–103.

33. The new accounting procedures are authorized by the Cost Accounting Standards (CAS) Board in CAS, Part 414 and by Defense Procurement Circular 76-3. The latter is an outgrowth of "Profit '76," a DOD study directed in May 1975 by the Deputy Secretary of Defense. It sought the development of "a policy of negotiated contract profit which would strengthen the United States' competitive industrial base and reduce the costs of systems and hardware essential to national security." See footnote 31.

34. *Aerospace Daily*, p. 103.

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prohibition against the use of U.S. assessed contributions for technical assistance by the United Nations agencies. This prohibition precludes any payment by the United States of its U.N. assessments, since the U.N. agencies cannot accept assessed contributions with conditions attached. It places the United States in violation of its legally binding financial obligations to the U.N. agencies. In turn, U.S. influence in the U.N. agencies is weakened, just at a time when this country has begun to reassert its traditional leadership role and when the United Nations is engaged in a number of matters of critical importance for the United States. We urge that this prohibitory language be removed promptly.

These are the purposes of our aid. They are purposes in our national interest. And they reflect the concern and strength of the American people.

MANAGEMENT AND EFFECTIVENESS OF AID PROGRAMS

Yet the worth of our goals is an insufficient measure of the worth of our programs. We must address two further questions. First, are our aid programs increasingly well managed and the funds effectively and efficiently used? And second, even if they are effective and efficient, can our programs make a difference to Third World nations, or do conditions there prevent progress?

With regard to the management and effectiveness of our development and effectiveness of our development efforts, Governor Gilligan [John J. Gilligan, Administrator of the Agency for International Development (AID)] will be prepared to discuss with you in greater detail:

Actions that have been taken by the executive branch through the Development Coordination Committee to link more effectively U.S. bilateral programs with our efforts in the multilateral development institutions;

What AID is doing to tighten controls over its operating expense budget and to decentralize decisionmaking overseas;

What new areas of cooperation have been established between the Peace Corps and AID to formulate complementary and mutually supportive activities in specific countries;

How AID has embarked on developing long-term strategies on a country-by-country, region-by-region basis; and

How it is enhancing and strengthening the system by which it evaluates its programs.

As you know, the President is now reviewing alternative means of fulfilling the mandate that you gave him last year to reorganize, consolidate, and upgrade development assistance. We have consulted your chairman and others concerning these options and will soon be making specific proposals.

With regard to whether our programs can make a difference, the answer is a clear "yes."

It is admittedly difficult to demonstrate the exact degree to which strong and effective aid programs contribute to the growth of developing nations. Obviously, they do so in a number of ways. They help poor people become more productive members of their societies through programs that improve their health and education, provide jobs for their hands and minds, or supply fertilizer for their fields. And they help national development also through balance-of-payments support and infrastructural development.

But many other important factors are also at work in development—such as the degree of local effort, the natural resources of the nation concerned, or even the weather. Thus, we and other aid donors neither can nor should claim some specific degree of credit for the progress that has been.

What we can say is that progress is taking place.

Over the past 25 years, per capita income in the developing countries grew on the average of 3 percent each year. This is about 50 percent better than the historical growth rates in the developed countries during their period of industrialization.

The quality of life for many millions has been improved by this growth. These improvements are reflected in significant increases in life expectancy, adult literacy, eradication of smallpox, and burgeoning school enrollment in the developing world.

The developing countries weathered the shocks of oil price increase, crop failures, and recession better than anticipated.

We can also say that our aid must and will continue to be focused primarily on those nations which share our goal of equitable growth. While much has been accomplished, much more remains to be done.

Poverty afflicts hundreds of millions while the economics of many nations in Africa, the Asian subcontinent, and the Caribbean are stagnating. Population growth continues to outpace food production in many nations. In the time it has taken me to share these thoughts with you this afternoon, world population has increased by about 4,000—three every second.

These problems are compounded by massive rural and urban unemployment and a significant number of regional conflicts which too often cripple economic progress.

The unfinished business of development presents a tragic picture of wasted potential and widespread human suffering. It represents a serious challenge to the economic and political stability which we and other nations require if growth and prosperity are to be sustained. And it is a moral challenge we cannot evade.

The funds we have budgeted have been carefully scrutinized. The same strict criteria which the Administration has applied to other Federal spending have been applied to the foreign assistance budget.

We had planned to increase foreign assistance levels in the area of bilateral economic aid more rapidly than we do in this budget. The pressing need for budgetary restraint caused us to slow the expansion of these programs. Substantial cuts were made by the executive branch. Indeed, it is important to note that our foreign assistance requests for 1980 will result in only $160 million in outlays above the 1979 appropriated level—a really negligible impact on the total Federal budget. Nonetheless, we believe that we must make very modest progress toward a goal of substantially increased aid in the coming years.

For let me emphasize again that we are speaking not only of the compelling plight of human beings in desperate need. We have a compelling national interest in their progress. The United States cannot have a strong foreign policy of active engagement in the world's affairs if we are unwilling to put our resources behind our words.

DISTINCTIONS WITHIN DISTINCTIONS*

THE PROTRACTED CONFLICT

(By James Burnham)

A couple of months ago [NR, Oct. 21] I suggested that in our time it is more useful to classify the forms of government on the initial basis of a triple rather than dual distinction: *totalist/authoritarian/democratic* rather than *dictatorial/democratic.* I defined the triple distinction as follows:

"Democratic nations, within a range that varies from nation to nation, are politically, culturally, and intellectually pluralist, and have some sort of representative political institution (parliament, assembly, congress) chosen by popular vote through an electoral process to which opponents of the incumbent administration have access.

"Both authoritarian and totalist [=totalitarian] governments are dictatorships, and in both the ruling cadre exercises a political monopoly . . . The distinctive feature of a totalist regime is the integration of all aspects of life—economic, cultural, social, even personal—into the single power system. Under an authoritarian government, some aspects are exempt, . . . or partially exempt."

THE FINER POINTS

To which, further:

1. These, like all distinctions, are clearer in the abstract than in concretion. No actual regime could be 100 per cent totalist—men being ornery, there will always be some deviation from the totalist monolith. This means that the line between "totalist" and "authoritarian" can be blurred. At just what point does a spreading authoritarianism become totalist, or a loosening totalism become authoritarian? Is Libya totalist? Is Yugoslav Communism nontotalist? A 100 per cent democracy would be anarchy, and an anarchic society cannot actually exist. Every actual democracy will have authoritarian elements. Is Ceylon a democracy? Is Mexico authoritarian?

Then there are hybrid regimes hard to place on the scale. South Africa is within the democratic range so far as its white citizens are concerned. It is formidably authoritarian (though not quite totalist) in relation to its nonwhites. Such an amalgam is not without precedent: South Africa's political structure is similar to the democracy of ancient Athens.

In close situations the designation may be arbitrary, but that does not destroy the usefulness of the distinction. China and the Soviet Union are totalist. Switzerland and Canada are democratic. Brazil and Peru are authoritarian. These are not semantic quibbles.

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*Reprinted by permission from National Review, v. 27, January 17, 1975: 27.

2. The triple distinction is independent of the Left-Right distinction. Totalist regimes can be Left (Soviet Union, China) or Right (Nazi Germany). Indeed, there have been totalist regimes to which the modern Left-Right category does not apply: theological regimes, for example, as in ancient Egypt, pre-Columbian Peru, and the Byzantine Empire.

Authoritarian regimes can also be Left (Peru today, Syria, most African nations, Burma, Chile a year ago) or Right (Brazil, Nicaragua, South Vietnam and South Korea, Spain, Chile today). So too democracies, though in their case it is nowadays mostly a question of degrees of Leftness. Switzerland, Belgium, West Germany, and the U.S. are, if not Right absolutely, at any rate Rightward of, say, Sweden, New Zealand, and Iceland.

3. The social composition of the groups holding power in modern authoritarian regimes varies widely. Sometimes it is the military (or a branch of the military, or an intellectualized—Nasserite—military cadre), and the military must always be included. Along with the military it can be the trade unions (Peronism), sectors of big business and banking (Brazil, South Korea, pre-Castro Cuba, pre-1974 Portugal), tribal communities (Africa), intellectuals and professionals (many of the Third World authoritarian regimes; in fact, most current authoritarian regimes and movements).

4. The prewar authoritarian regimes were nearly all Rightists, often incorporating the Church and big landowners along with the military and sectors of big business and finance in the ruling stratum. It was in this context that the still prevailing ideas and attitudes about authoritarianism were formed. This, plus mistaken analyses of Nazism and Peronism (partly implanted by the Communists), was the background of the liberal preference for finding the enemy on the Right. Liberalism is correlated with democracy. Communism notably aside—and Communism was not then an imminent threat in the Western democracies—liberalism's primary enemy was in truth on the Right.

But in this as in so much, liberalism is out of phase with history. Although today's authoritarianism can come from either Right or Left, it has come more frequently, and is more threatening, from the Left. By directing its fire toward the enemy on the Right, liberalism leaves democracy exposed to envelopment from the Left.

5. In exercising their political monopoly, both Left and Right authoritarian regimes can be, and usually are, harsh and often brutal. Both have a tendency to extend their hold to other, nonpolitical spheres—a tendency, that is, toward totalism. However, this tendency is stronger in Left than in Right authoritarianism. The Right usually allows a greater measure of economic freedoms—especially the humble, basic consumer freedoms—and is less likely to interfere with religious freedom. Moreover, there would seem to be a greater probability of Left authoritarianism's evolving into (Left) totalism than of Right authoritarianism's evolving into (Right) totalism. Powerful Left totalist regimes, promoting totalism, exist today; there are no Right totalist regimes nor signs of one. Leftist economic measures prepare a foundation for generalized statism. Nontotalist Left doctrine overlaps totalist (Communist) doctrine. Left authoritarian regimes—even

some Left democratic regimes—are willing to accept totalists in the government.

6. The Greek philosophers are again confirmed in their conclusion that democracy's defects lead toward its replacement by despotism. In Chile yesterday and Portugal today the issue posed is not democracy *v.* dictatorship, but Left *v.* Right authoritarianism. So it may be tomorrow in Italy, Spain, and Greece. And where may it not be the day after tomorrow?

FOREIGN AID FOR WHAT AND FOR WHOM*

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by Samuel P. Huntington

"Foreign Aid: Billions in Search of a Good Reason" was the title of a 1963 *Fortune* article by Charles J. V. Murphy. Seven years later, the billions may be fewer in number, but the search for the good reason is all the more intense. The continued quest for a rationale for foreign aid is one of its distinguishing characteristics as an area of public policy. It is a quest which has been pursued through countless commissions, study groups, conferences, reports, and memoranda. President Nixon told the most recent presidential task force that its primary mission was to come up with a new concept or purpose for foreign aid. This search for a rationale will come to a public head in the spring of 1971 when Congress will probably pass the first completely new authorization act for foreign aid since it approved the Kennedy Administration program in 1961. This legislation will presumably set the course for the U.S. foreign assistance program for the 1970's.

One would expect the *opponents* of foreign aid to ask: "What's its rationale?" Instead, it is those most fervently committed to foreign aid who most often raise the question. Here is a marked reversal of the usual pattern. For in other areas of public policy, the purposes of a program are fairly clear: there is, for instance, obvious good reason to improve the economic well-being of the urban Negro; the problem is to come up with the right program or programs (welfare, job training, black capitalism, equal job opportunity) to achieve that goal. Similarly, there are obvious reasons why the United States conducts intelligence activities, engages in overseas public information and propaganda, and maintains a nuclear retaliatory force and a Marine Corps. One may or may not agree with the reasons for these activities, but at least there is little doubt as to what those reasons are.

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With respect to foreign aid, on the other hand, many people seem to feel that it is a good thing but that they lack convincing reasons as to why it is a good thing. It is tribute to the emotional dedication and loyalty of its supporters that foreign aid has staggered along as well as it has during the past few years. Both the strength and the weakness of foreign aid stem from the fact that its supporters remain firmly committed to it despite their difficulties in finding a rationale. To the dedicated, foreign aid is a "good-in-itself" and the more of it the better. The criterion of progress and of the wisdom of Congress as a legislative body is the size of the annual foreign aid appropriation.

Supporters of foreign aid agree that its rationale is "inadequate."[13] They do not, however, draw the obvious conclusion: namely, that if its rationale is inadequate, foreign aid should be reduced. Instead of scaling down the program, they seek to beef up the rationale. At the same time they castigate Congress for taking the inadequate rationale at its face value. The development of the rationale becomes the means of preserving and expanding a program which is good-in-itself, whatever the weakness of the arguments for it. The psychology of the foreign aid devotee often bears a striking resemblance to that of the battleship admiral or bomber general who views American ships and airplanes as good in themselves quite apart from any national purposes they might serve.

Those who do not belong to the select, articulate corps of aid true believers may look at the program slightly differently. To what extent is foreign aid something "good-in-itself"? If we had not inherited a foreign aid program from the past, would there be any clear national need to create one? If there were such a need would we create a program resembling the current one?

The only way to deal with these questions is to reverse the implicit means-end relationship of the aid true believers. Foreign aid involves the concessional transfer of resources —capital, commodities, expertise—from the United States to other countries. Foreign aid is, in some sense, the foreign counterpart of federal grants-in-aid to the states. These latter programs may be devoted to a variety of purposes from road-building to public housing to welfare to education. In the domestic context, grants-in-aid are recognized as simply one means of achieving a number of goals. In the international context, the facts are the same but perceptions are different. The federal government has no single "foreign aid program" any more than it has one "domestic subsidy program." Aid is a means which can serve a variety of ends most of which can also be served by other means. The scope and nature of U.S. foreign aid presumably should reflect: (a) the relative importance of the ends to be served by foreign aid in comparison with other goals; and (b) the relative effectiveness of foreign aid as a means to achieve those ends in comparison with other means.

In analyzing the purposes to which foreign aid may be relevant in the 1970's, it will be desirable:

1. to reconsider and to restate the U.S. interest in the principal purpose to which foreign aid has been devoted in the 1960's, i.e., the economic development of poor countries;[1]

2. to disentangle from each other this and other purposes served by foreign aid and to realign programs and organizations in terms of major purposes; and

3. to identify any new purposes of high priority for the United States which might be promoted by some form of foreign aid.

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[1] *Those who prefer bureaucratese should think "LDC", or "less developed country," when they read "poor country" in this essay.*

The pages immediately following analyze the interest of the United States in economic development. The remaining two topics will be dealt with in the next issue of FOREIGN POLICY.

I. Trends in the 1960's

Sensitivity to the problems of economic development manifested itself in the higher echelons of the U.S. government in the late 1950's. In 1961 the Foreign Assistance Act replaced the old Mutual Security Act as the legislative basis for aid programs. The new act declared that emphasis should be given to long-range assistance to promote economic and social development. Two years later Congress warned that such assistance should not be diverted to "short term emergency purposes . . . or any other purpose not essential to the long range economic development of recipient countries." Economic development thus became the prime rationale for American economic assistance programs. There was, as Edward S. Mason observed, "a growing conviction that the primary objective of aid was the promotion of economic development."[1] In the years after 1961, this conviction became an increasingly accepted assumption for most people actively concerned with the aid program. Indeed, "aid" and "development" came to be so closely linked as to be almost interchangeable.[2]

The growing emphasis on economic development of poor countries as the purpose of U.S. foreign aid more or less coincided with two other trends in the quantity and quality of U.S. foreign assistance. The amount of U.S. economic assistance moved sharply up-

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[1] *Edward S. Mason, "The Diplomacy of Economic Assistance" (Middlebury College, 1966), p. 16.*

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[2] *Note also the changing styles in the names of Presidential study groups concerned with foreign aid. The Clay Committee (1963) was officially "The Committee to Strengthen the Security of the Free World." In 1968, however, the Perkins Committee was the "President's General Advisory Committee on Foreign Assistance Programs" and by 1969 the transition was complete with the Peterson "Presidential Task Force on International Development."*

ward in the very early 1960's, when the economic development rationale was new, peaked in the mid-1960's (somewhere between 1963 and 1966, depending on what statistics are used), and then declined slowly but regularly to the end of the decade. Perhaps more significantly, Congressional appropriations for the central economic development assistance program in the Agency for International Development (AID) declined much more sharply. At the same time that there was this over-all decline in the quantity of economic development assistance, there was also a marked deterioration in what is generally called the quality of such assistance. In successive annual authorization and appropriation acts, Congress wrote in more and more restrictions as to how, where, and for what aid could be used. The restrictions ranged from those designed to prohibit aid to certain countries (e.g. those who trade with Cuba, who fail to prevent mob destruction of U.S. property, who expropriate U.S. property, or who are delinquent in debt repayments), to those which were designed to safeguard the U.S. balance of payments and provide minimum interest rates for U.S. loans, to those which benefit specific U.S. industries. The 1969 Foreign Assistance Act took 84 pages to spell out restrictions which had accumulated over the years in response to the special interest demands of legislators and lobbies. There were, at that point, some 65 individual restrictions on the checklist for the making of loans. "It is probably not an overstatement to suggest," one AID report put it, "that perhaps as much manpower, talent and energy are spent in insuring compliance with specifically imposed restrictions as is spent in the execution of programs and projects."

The declining level of aid since the mid-1960's and the multiplying restrictions on aid since the early 1960's all suggest that economic development as a purpose lacked a certain appeal among key policy-making groups, most notably in Congress. This is not surprising.

U.S. aid programs in the 1940's and early 1950's were largely devoted to the reconstruction and recovery of an area of the world (Western Europe) whose independence, defensibility, and prosperity were obviously of crucial importance to the United States. The Mutual Security programs of the later 1950's were largely devoted to strengthening "forward defense" countries, like Korea, Taiwan, Iran, Turkey, and Greece, whose security appeared to be essential to that of the United States and who appeared to be threatened by Soviet or Chinese expansion. Compared to the national interest in European recovery and containing Communism, the U.S. interest in the general economic development of poor foreign countries could easily seem somewhat remote. If a country is threatened by 50,000 Communist troops, the rationale for U.S. economic and military aid to that country is fairly clear. If a country is threatened by a 3 percent rate of economic growth, the implications for American national interests are not quite so obvious, to put it mildly. In addition, so long as the rationale for aid is primarily in terms of *economic* benefits to a *foreign* country, it is hard to defend the aid program against restrictions and conditions designed to provide *economic* benefits for the *United States* (e.g., tying aid, shipping restrictions, the Hickenlooper Amendment). Why, indeed, should we put economic advantages for other countries ahead of the protection of seemingly legitimate United States economic interests?

II. Foreign Aid Without Foreign Policy: The Purist Rationale

The general weakening of U.S. support for economic assistance in part reflected the belief that the economic development of poor foreign countries was not and could not be a very high priority goal for the United States. It also, in part, reflected the negative impact of one type of rationale which was advanced in support of developmental aid. The argument was often eloquently made that economic development should itself be a high-priority goal of U.S. foreign policy, but that economic development assistance should not reflect U.S. foreign policy. Economic development was made an end-in-itself, just as at a lower level of abstraction foreign aid was considered an end-in-itself. The organizational implication of this "purist rationale" was that the administration of developmental assistance should have an autonomous status (in an independent bank or institute) divorced from the State Department. This argument undoubtedly reassured aid supporters of the morality and importance of their cause at the same time that it weakened that cause. Three aspects of this approach are worth noting.

First, the purist rationale emphasized the general relation between the developed and the underdeveloped world, stressing the extent to which development is an extraordinarily long-term process. It abstracted the whole question of development from the particular interests which the United States may have in particular countries for particular periods of time. The case for aid was typically phrased in terms of foreign needs rather than U.S. purposes. As portrayed by the supporters of aid, the needs of the poor countries were so great that anything the United States might do would make little difference. The 1969 Pearson Commission report begins by saying, "The widening gap between the developed and developing countries has become a central issue of our time." According to one analysis, however, even if the Pearson Commission recommendations were implemented, the gap would "continue to increase to three or four times its present size by the end of the century."[4]

If indeed this is true, then the case for not bothering to do anything becomes overpowering. As Ambassador Edward Korry neatly put it: "by not differentiating our development objectives in accordance with realities, we appear to be engaged in developing virtually the entire less-developed world. An undertaking of that kind is simply not credible."[5]

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[4] *Richard Jolly, "The Aid Relationship—Reflections on the Pearson Report" (Paper prepared for Columbia University Conference on International Economic Development, Williamsburg and New York, February 15-21, 1970), p. 3.*

Not only has the purist rationale typically been formulated in universal terms so far as geography is concerned but it also has been formulated in indefinite terms so far as time is concerned. The promoters of aid, indeed, have gone out of their way to emphasize that development is a long-term process. This, to be sure, it is. But a government aid program needs to be directed to specific objectives which can be achieved in particular periods of time. The indefinite, universal quality which adheres to the goal of economic development contrasts with the limited, specific character of the most successful U.S. aid effort. The Marshall Plan was: *(a)* directed to specific and well-defined goals; (b) limited to a geographic area of vital concern to the U.S.; and (c) designed for a limited period of time. U.S. efforts to promote economic development in Third World countries have lacked all three of these characteristics. As a result, those efforts appear to have little relation to U.S. foreign policy purposes.

A second key proposition in the purist rationale is that economic development assistance should, as one memorandum put it, "be treated as separate and independent from the shorter-term political and economic goals which both donors and recipients pursue as a matter of immediate national advantage." Indeed, if there is any cliche which is regularly invoked in almost every report and analysis of aid, it is this: economic development programs must be separated from "short-term political objectives." Nothing could better illustrate the self-defeating character of the purist rationale. As anyone having even a marginal familiarity with government knows, "short-term political objectives" are precisely the thing to which political leaders devote most of their time. By proclaiming that economic development is divorced from "short-term political goals," the aid enthusiasts are saying that it should be divorced from the main concerns of political leaders. It is a little peculiar to try to mobilize the support of politicians for something by arguing that it has no relevance to politics. In economic development assistance, as elsewhere, those who wish to be pure-in-spirit are usually doomed to be poor-in-pocket.

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[5] New York Times, *March 8, 1970, p. 22.*

In fact, of course, economic development assistance can be very relevant to politics, just as aid which is given for political purposes has been very relevant to economic development. By stressing again and again that economic development must be pursued as an end-in-itself, apart from all other goals, the proponents of economic development limit the potential supporters of aid. The proponents of aid in the United States might well have learned something from those other countries which have had relatively high or increasing aid levels in recent years. French official economic assistance has consistently been fifty to almost a hundred percent higher than U.S. assistance as a ratio of Gross National Product (GNP). One reason for this may well be that French aid has had the very consciously defined political purpose of maintaining French influence in its former colonies and that it has been almost exclusively concentrated in those former colonies. Such purposes make sense to chief executives and legislatures. In a somewhat similar fashion, the rapidly increasing Japanese aid has been directly tied to the efforts of the Tokyo government to extend Japanese commerce and investments in Asia. It seems highly unlikely that the foreign aid administrators of France, Japan, or any other country would ever repeat the statement of the U.S. AID administrator who declared it absolutely false that "the foreign aid program can and should win friends for the United States and increase our bargaining power in the United Nations and other international forums."[6] If supporters of economic development want the United States to spend the same proportion of its GNP on aid that France does, they might well forgo their ideological purity and graciously endorse aid being used for purposes similar to those which French aid serves.

The most extreme version of the purist rationale argues not only that economic development should be pursued independently of political goals but that economic development is the *only* legitimate goal of economic assistance. The use of economic assistance for other purposes is either immoral or ineffective. "If the objective of economic assistance is to have an immediate influence on the political behavior of aid-receiving countries," in Professor Mason's words, "we had better get out of the aid business now."[7] In practice, however, the United States has frequently given economic assistance to achieve non-economic objectives, and with results which have been at least as relatively successful as its efforts to promote economic development. This assistance has generally tended to take three forms:

1. The granting of economic assistance to a friendly government to help it consolidate its position after initially coming to power (e.g., Brazil, 1964), to help it to survive a temporary period of financial crisis (Iran, 1961), or to help it win an election against somebody we would rather not see in power (Chile, 1964). In these cases, there is mutuality of interest between the government of the country and the U.S. government.

2. The granting of economic assistance to a government which may or may not be very friendly to the U.S. in return for that government giving us something which we want,

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[6] *Quoted in Roy J. Bullock*, Memorandum on What to Do About Foreign Aid, *U.S. Congress, House Committee on Foreign Affairs, 91st Cong. 1st Sess., January 21, 1969, p. 2.*

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[7] *Edward S. Mason, op. cit., p. 13.*

e.g., base rights, a U.N. vote, troops in Vietnam, the rejection of aid from another country. In this case there is a reciprocity of interest between the government of the United States and the other government; the relationship depends simply on each government feeling that it has gotten what it wanted from the bargain.

3. The denying of economic assistance to governments which do things we do not like or refuse to do things which we want done. Often the U.S. has, for instance, suspended assistance to governments which have come to power through *coups d'état* until such governments have scheduled elections. At other times, the U.S. has attempted to use the threat of suspending assistance to induce governments to settle controversies or refrain from other political acts.

The desirability of economic assistance for political purposes in situations (1) and (2) depends on how one rates the purpose to be achieved and the price which is paid to achieve it. Such aid is almost always effective. Efforts to induce other governments to change their behavior by threatening to deny them aid (situation [3]), on the other hand, are often not effective. Psychologically and politically, it is easier for another government to accept aid in return for performing some service to the U.S. than it is for that government to allow itself to be "coerced" into doing something by the threat that the U.S. will take away aid.

The exchange of economic assistance for political benefits between the U.S. and poor governments during the past decade has rested on the fact that the U.S. government has had hard currency which other governments have lacked and wanted, while poor governments have had other things (e.g., strategic locations) which the U.S. government has lacked and wanted. In the future, as the U.S. increasingly assumes a "low posture" in many parts of the world, presumably there will be fewer other things which the U.S. government would consider worth a lot of economic assistance. To the extent that other governments also come to place less value on economic assistance, they will, presumably, be less willing to perform services for the United States in exchange for such assistance. Thus, the use of economic assistance purely for "short-term political objectives" is likely to decrease. Given the differences in resources and in goals among governments, however, such assistance will appropriately and naturally continue to exist in one form or another, and it does not serve any useful purpose to argue that there is something inherently illegitimate about it.

III. Pick a Number, Any Dramatic Number

The purist rationale also divorces economic development assistance from foreign policy by defining the goal as a level of foreign aid equal to some percentage, usually 1 percent (for all resources flows) or .7 percent (for official aid) of GNP. It is difficult to conceive of a more telling admission of bankruptcy of purpose than the enthusiasm with which the proponents of economic development have espoused this target. Such a figure is, of course, completely unrelated to the differing and changing interests and purposes of the aid donors; it is almost equally unrelated to the differing and changing requirements of the aid-receivers. The amount of aid which the poor countries could effectively use for development has to be worked out on a country-by-country basis. Their total needs might or might not be more than one percent of the GNP of the developed countries. Estimates of the probable needs of the poor countries in 1973, for instance, range from a low of $13 billion to a high of $22 billion. The latter figure is somewhat more than 1 percent of the probable GNP of the developed countries in 1973; the former is about 2/3 of 1 percent, or just about the level of United States aid in 1968. In addition, of course, a target such as this "puts the emphasis on the wrong side of the partnership"[*] for yet another reason: a decrease in the GNP of the rich countries could well coincide with an increase in the development assistance needs of the poor countries.

There is something basically wrong with a program when its supporters define its goal in terms of *how much* should be spent on it rather than *what* should be achieved by it. The establishment of percentage goals reflects the view that foreign aid is a good-in-itself: pick a good round figure, which can be easily dramatized, which is substantially higher than existing levels, but which is not entirely beyond the range of the economically and politically feasible, and make this your target! In the absence of a clear relationship between foreign aid spending and some vital national purpose, however, the percentage goal becomes highly unreal. Expenditures are justified only insofar as they serve some important objective, and the national interest in them will presumably change over time. Thus, it is not surprising that at one time some countries (Japan, Germany) may find it in their interest to increase their aid efforts significantly, while another country (the United States) may find it in its interest to cut back on aid because it is moving into a "low posture" in foreign affairs and giving increased attention to domestic needs. The foreign aid programs of different countries are designed to serve different ends. It makes little sense to add together apples and oranges to produce international comparisons of aid levels, when the resulting totals obscure crucial differences in content, quality, scope, and purpose.

There is no more rationale for setting official development assistance at .7 percent of GNP than there is for setting military spending at 10 percent of GNP or educational spending at 4 percent of GNP. In the mid-1950's when the Eisenhower Administration was sharply reducing the defense budget, some generals in the Pentagon came up with the idea of trying to get Congress to declare that 10 percent of the GNP should be regularly spent on defense. Fortunately, for both the defense program and the country, nothing came of this idea. At that time, however, the generals, like the proponents of foreign aid today, were having a hard time making a convincing case for higher military spending. Their seizing on the 10 percent figure, like the current seizing on the 1 percent figure, was a sign of the weakness of their case.

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[*] *Task Force on International Development*, U.S. Foreign Assistance in the 1970's: A New Approach, March 4, 1970, p. 37

A percentage can be a target, but it is not a purpose. The aid proponents' enthusiasm for a fixed level of aid underlines a desire to escape from politics and a reluctance to develop a rationale relating aid and development to other U.S. foreign policy goals. It is, however, precisely a statement of such relationships which is required today.

IV. Economic Development and Foreign Policy: U.S. Interests

A more conscious effort is needed to place economic development in the over-all context of U.S. foreign policy. Many arguments and analyses have been devoted to this purpose. Much of what has been said has been quite persuasive, though some of it has been rather extravagant in the claims made for a U.S. interest in economic development. What follows in this section is an effort to take a cold, hard look at these claims and come up with an honest answer to the question: To what extent is the promotion of the economic development of poor foreign countries a desirable and important goal for U.S. foreign policy?

U.S. concern with the economic development of poor foreign countries can presumably be analyzed in terms of moral obligation and national interest.

The moral obligation is clearly that of the rich to be concerned with alleviating the poverty of the poor. In the words of the Pearson Commission, "The simplest answer to the question [Why aid?] is the moral one:

that it is only right for those who have to share with those who have not."[9] This argument is persuasive and unchallengeable. The problem is that in its simple form it does not reach very far. Those who can help have the obvious responsibility to help eliminate the obvious evils of hunger, disease, illiteracy, inadequate housing. The moral obligation to attack such evils furnishes an effective justification for many elements of U.S. foreign aid, including the Peace Corps, food programs, relief programs, health programs, and, perhaps, population control. The justification for longer-term and, usually, larger projects and programs oriented more specifically toward economic development, on the other hand, is more tenuous. The moral obligation to feed the hungry in India is fairly obvious. The moral obligation to insure that India's economy grows at 6 percent per annum is considerably less obvious.

The moral obligation is further weakened by the nature of the public aid-giving process. This typically involves the transfer of resources or credit from one government to another government. The moral obligation, however, is to help the poor *people* of poor countries, not the governments of poor countries. Yet aid which is given to the government of a poor country may well yield little direct or indirect benefit to the poor people in the poor country. This is the reason why private relief programs and public programs, such as the Peace Corps, which can show direct results in aid-to-people, advance a greater moral claim for support than those which involve aid processed from the "power structure" and upper- or middle-class bureaucracy of one country to comparable institutions in another country.

The moral argument is thus persuasive when it comes to providing minimum economic well-being for individuals, but much less so when it comes to promoting optimal economic growth of societies. Indeed, in some sense the goal of promoting economic development may conflict with the implicit assumptions underlying the case for moral concern. It is, for instance, generally agreed that aid for economic development should be given primarily on the basis of past or prospective economic performance. Donors should help those who help themselves. The moral case for aid, on the other hand, normally is made in terms of need, not performance, which means helping those who are not able to help themselves.[10]

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[9] Partners in Development: Report of the Commission on International Development *(New York: Praeger, 1969), p. 8.*

What then is the U.S. national interest in promoting economic development in the Third World? Three arguments—economic, security, political—are usually advanced. First, economically developed countries are better markets for U.S. goods and better locations for U.S. investments than less developed countries. This proposition is indisputable. The extent to which it necessarily follows that the U.S. has a clear economic interest in the economic development of Third World countries is not quite so obvious. Economic development of those countries will not only open up sales and investment outlets; it will also produce many industries which may compete with U.S. products in foreign markets and conceivably in the U.S. market. Economic development may also have other consequences which could counterbalance the benefits of new sales and investment outlets. Nonetheless, it seems likely that the long-term effects of the economic development of the Third World would probably be more beneficial than not to the economic interests of the U.S.

The second, or security, argument for a

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[10] *There is some question as to whether either of these criteria has been consistently applied in the U.S. economic aid program. One index of need, presumably, is the level of per capita* GNP *in a society. One index of performance, presumably, is the rate of growth of* GNP *in a society. In terms of these measures of both need and performance, the East Asian societies where the U.S. is eliminating aid are far more deserving of assistance than the Latin American societies (with higher per capita* GNP*'s and lower growth rates) where the U.S. is continuing aid.*

U.S. interest in the economic development of poor foreign countries revolves around the inherent instability of a situation in which a tremendous gap exists between a small proportion of the people of the world who are rich and a large majority who are poor. Reducing this gap is essential to the security of the affluent minority. If this does not happen, resentment, frustration, hostility will escalate and violence will inevitably result.

This argument is not very persuasive. In fact, poor countries are less likely to have either the desire or the capacity to threaten the security of others than are countries engaged in rapid economic and social development. Only countries which have reached a minimum level of economic strength are in a position to undertake aggression. Historically, war and economic development have been closely related. Economic development of a poor country contributes to U.S. security only where the security of that country is essential to the security of the United States. By and large, poor countries, so long as they are poor, lack the capability to threaten U.S. security, whatever their desires may be. Once they are richer, they will have greater capability to be a threat to the United States, and there is little or no basis in logic or history to think that any desire to threaten the U.S. will be significantly lowered simply because they are richer. (This is not, let me hasten to add, to argue that the U.S. should therefore do what it can to promote grinding poverty in other countries. It is simply to say that the elimination of grinding poverty in other countries will not increase U.S. security and may well decrease it. Since grinding poverty is an evil-in-itself, I, for one, am quite willing to run the risk of some insecurity for the U.S., in order to have less poverty for others.)

V. The Political Argument

Finally, the political argument for U.S. help for Third World economic development is that the current poor countries are going to develop economically by hook or by crook anyway, and that it is in the long-term interest of the U.S. to help them in order to win their friendship and understanding or at least to minimize the bitterness which a failure to aid them would engender. On the surface, this argument has a persuasive simplicity to it, and one can think of cases (U.A.R., Cuba) where U.S. refusal to give aid probably contributed to subsequent hostility towards the U.S. But as with most commonsensical propositions, there is also a commonsensical counterproposition. How many times have we heard that one cannot buy friends by giving them aid, that it is a mistake to think that other people are going to like us because we help them, that such relationships are more likely to breed feelings of resentment, guilt, and frustration on both sides?

More generally, the gratitude of nations and governments is normally a transient thing at best, and is apt to approximate the classic expression of the ward heeler to the political boss: "But what have you done for me lately?" The country, after all, which received more U.S. aid than any other, France, was hardly a model ally for many years thereafter. On the other hand, insofar as the governments of both rich and poor countries expect the United States to demonstrate an interest in the economic development of poor countries, the U.S. may well have a political interest in demonstrating such an interest in order to avoid the critical opinions and antagonistic behavior which might result if such expectations were disappointed. This derived or secondary political interest could lead the U.S. to promote such development even if the direct political benefits which might result therefrom were minimally positive or minimally negative.

This political argument is often based on the explicit proposition that economic development is the overriding goal of the people and governments in the poor countries. That it is a goal is quite clear. That it transcends all other goals is not clear at all. Governments, in particular, have to be concerned with many other things which often conflict with economic development and must often take precedence over it. The prime requisite of any government is to remain a government, and political leaders give first priority to staying in power. They are likely to rate the goals of internal order and external security above that of economic development. They may prefer to have a greater degree of national independence than a higher growth rate. Some may be more interested in ideological and symbolic goals than in the more mundane demands of economic development. In fact, of course, some political leaders of poor countries clearly have not given very high priority to economic development. The extent to which the World Bank, AID, and consortia have found it necessary to impose conditions for aid in the form of demands for fiscal and economic reforms suggests that the recipient governments, if left to their own devices, would give priority to other needs. Foreign and international aid donors often appear more interested in the economic development of the aid recipient than is the recipient government itself. Since the donor agencies have that as their *raison d'être* and since governments are inherently multipurposed, this situation should cause neither surprise nor alarm. It does mean, however, that the economic development goal which may be the be-all and end-all for donor agency officials is only one of several targets for the harassed and cross-pressured political leaders of the recipient government.

When viewed from a somewhat broader perspective than that of the aid agencies, economic development is also unlikely to be the overriding American interest in most poor countries. Take India, for example. The U.S. has a definite interest in promoting Indian economic development. The U.S. also has, however, at least three other important interests in India:

1. The military security of India against external attack, particularly from Communist China.

2. The national integration of India, preventing its break-up into half-a-dozen or more squabbling ethnic-linguistic states.

3. The political stability of India as the largest democracy in the world and one of the few effectively functioning democracies in the Third World.

Each of these three goals, it can be argued, is considerably more important to the U.S. than the economic development of India. In some respects, economic development may contribute to the achievement of these other goals, but it also may threaten these goals. The economic development of India would, presumably, make a net contribution to the security of India by increasing its ability to arm itself and to defend itself. (It may also, of course, contribute to the insecurity of Pakistan, but that's another issue.) Economic development, on the other hand, is likely to have some negative effects on Indian national unity. It could well exacerbate regional differences, promote differential rates of social mobilization and economic well-being among ethnic groups, and enhance communal consciousness through increasing literacy and education. So far as political stability is concerned, clearly the future of India's democratic system depends, in some measure, on its ability to bring about at least gradual improvements in the economic well-being of the Indian people. At the same time, very rapid rates of economic development, certain unbalanced forms of economic growth, and particularly (as we have seen in Pakistan) high rates of growth which involve and in part may be dependent upon at least temporary increases in income inequality, can be politically destabilizing. Presumably few would argue that India should abandon democracy and adopt an authoritarian system of government because that system could promote a higher rate of economic growth (assuming that would be the case). Similarly, no one would argue that India should eschew economic development simply because it might produce strains on its democratic system. The problem, obviously, is to achieve an appropriate mix of two inherently desirable goals which may in some situations be reinforcing but in others be incompatible.

The general point simply is that the U.S. interest in the economic development of India or any other part of the Third World has to be viewed in the context of other U.S. interests in those areas. Economic development cannot be presumed to be the only U.S. interest or even the primary U.S. interest in developing countries.

VI. Where and How Much

Assuming the U.S. does have an interest in the economic development of at least certain Third World countries, there is still the question of how great an interest it has. How important is it to the U.S. that India achieve a 6 percent rate of economic growth rather than a 5 percent rate of growth? If that 1 percent higher rate of growth were clearly dependent upon $300 million or $500 million or $1 billion aid from the U.S. during the next five years, what case could be made for giving that use priority over, say, (a) investing the money in U.S. urban ghettos; (b) granting additional tax cuts to the U.S. poor; (c) allocating the amount to medical and scientific research; or (d) reducing inflationary pressures by not spending the money at all? There probably is no way to answer this question which is both rational and persuasive, but it is clearly the sort of question which is in the minds of many critics of aid and which has to be grappled with in one way or another.

Assuming the U.S. has some general interest in the economic development of poor countries, there is still the question of its *particular* interest in the development of individual countries. Recent arguments on behalf of development assistance have generally not been framed in terms of individual countries. Presumably, however, the U.S. does have a greater interest in promoting the economic development of some countries than of others. What criteria might be used to distinguish among countries in terms of the extent of U.S. interest in their economic development? The obvious answer furnished by the logic of economic development is the manifest interest of the recipient government in promoting its own economic development, measured by past or prospective economic performance. Yet even the enthusiasts for economic development recognize that while they may be able to make a case for the use of purely economic criteria in allocating resources within a country, they clearly cannot hope to persuade political leaders that purely economic criteria should be used in allocating resources among countries. These criteria may play some role, but other factors necessarily and indeed appropriately also come into the picture. Perhaps five criteria are relevant:

1. Economic performance, i.e., the demonstrated or probable ability of the country to make effective use of aid for economic development and its willingness to commit its own resources and to adapt its own politics to this goal;

2. Security relevance, i.e., the extent to which a country's external security is of major interest to the U.S. and the extent to which that security is or could be threatened by another power;

3. Political democracy, i.e., the extent to which the country has a broad-based, democratic political system with meaningful elections and protection of individual civil liberties;

4. Historical association, i.e., the extent to which some special, historical relationship has existed between the country and the U.S., giving that country an extra claim on U.S. consideration and help;

5. Global importance, i.e., the relative weight which the country does have or potentially may have in world politics.

Presumably the U.S. interest in the economic development of countries which meet several of these criteria is considerably higher than its interest in those which meet none or only a few of them. The critical point is that the U.S. interest in the economic development of a country is one aspect of the over-all U.S. interest in that country and has to be meshed with the totality of U.S. foreign policy toward that country.

VII. Economic Aid as a Means to Economic Development

If the U.S. does have some interest in promoting the economic development of Third World countries, to what extent is economic assistance an effective way of achieving that goal? Are there other means, such as tariff preferences or investment guarantees, which may be equally effective or more effective than capital and technical assistance in promoting economic growth? Economists may provide academic answers as to the relative effectiveness of differing means of economic development, but the United States government is singularly ill-equipped to consider this issue on a policy basis. AID is the only agency primarily concerned with the economic development of poor countries. AID's only real means of promoting this goal, however, is in effect through capital and technical assistance. It is in no position to consider the trade-offs between aid and other ways of achieving economic development. These other means fall within the jurisdiction of the Treasury Department, the U.S. Tariff Commission, or Commerce Department, for whom the economic development of poor countries is a relatively low-priority concern.

In practice, therefore, economic assistance becomes the principal means of promoting economic development. How effective has it been in doing this? Here again the talents of the economist are essential. But it cannot be blindly assumed that there is a direct positive relationship between economic assistance and economic development. The relationship may exist, but it has to be demonstrated. During the 1960's, aid financed 10 percent of the capital investment in the poor countries and 20 percent of their imports. Alan Strout has

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evidence that in developing countries, "the GNP contribution of foreign capital has equaled or exceeded that of exports in spite of the fact that export earnings were larger than foreign capital receipts by a factor of 5:1" and that it was also greater than the contribution of all of agriculture.[11] In a few countries (Korea, Taiwan, Iran, Turkey) massive doses of aid apparently led to high rates of growth which either have freed or promise to free these countries from reliance on concessional aid. In Pakistan, between 1960 and 1965, as Professor Mason has pointed out, 40 percent of the total developmental expenditures and 70 percent of developmental imports were made possible by foreign aid. Technical assistance has contributed enormously to the ability of poor countries to plan and manage their development and to educate the additional manpower needed for development. In agriculture, foreign assistance has made possible the "Green Revolution" which promises to make many countries self-sufficient in food, thus freeing foreign exchange for other developmental purposes.

At the same time that a case of this sort can be made for the role of aid in promoting economic development, it is also necessary to note that there may be a few holes in the relationship. Even the Pearson Commission is forced to admit that despite the contribution of aid, "the correlation between the amounts of aid received in the past decades and the growth performance is very weak."[12] Raymond Mikesell argues that:

> Historically, some countries have developed without significant capital imports and, in some cases, the achievement of sustained growth preceded a substantial capital inflow. On the other hand, large capital inflows have frequently made little contribution to development. As a general proposition, external capital or aid is

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[11] *"Foreign Capital and Economic Growth" (Paper, The Brookings Institution, December 24, 1969), pp. 1-2.*

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[12] Partners in Development, *p.* 49.

> neither a necessary nor a sufficient condition for development.[13]

In a similar vein, Professor Mason has pointed out that external assistance to India under the Third Five Year Plan was double that under the Second Five Year Plan, yet there was no significant increase in the Indian growth rate.[14] This testimony would seem to suggest that in some situations high rates of economic development may be achieved with low levels of foreign aid and that in other situations high levels of foreign aid may not alter low rates of economic development.

The impact of different types of economic aid on economic development also does not appear entirely predictable. Economists tend, for instance, to view defense support or supporting assistance as a somewhat dubious form of foreign aid which clearly does not have the same impact as project aid or technical assistance. Commodity assistance they seem to be of a divided mind about. "It is," therefore, as Professor Nelson has observed, rather "striking that among the countries receiving sizeable U.S. assistance, those that have recently achieved or are expected to achieve self-sustaining growth are the countries in which U.S. aid was initially and for some years after directed to security problems. The outstanding characteristic of these programs was sustained large-scale commodity assistance. This assistance almost surely served as a powerful catalyst for later rapid growth."[15] That this aid would have this effect apparently was not anticipated by most economists. Nor does there seem to be any general agreement now among the economists as to the relative value of program and project assistance. Non-economists, consequently, may perhaps be excused if they remain somewhat perplexed as to the real efficacy of different types of aid in promoting economic development.

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[13] *Raymond Mikesell* The Economics of Foreign Aid *(Chicago: Aldine, 1968), p. 258.*

[14] Diplomacy of Economic Assistance, op. cit., *p.* 24.

[15] *Joan M. Nelson,* Aid, Influence, and Foreign Policy *(New York: Macmillan, 1968), p. 41.*

VIII. The Opponents of Aid

One question deserving more attention is the increasingly hostile attitude of groups within recipient countries toward foreign aid. While American thinkers have been searching for a new rationale for aid, Third World thinkers have been developing a new rationale against aid. This anti-aid rationale is rooted in three increasingly important intellectual currents: nationalism, socialism, and traditionalism or anti-Westernism. The intellectual opposition to aid generally accepts the view that aid makes a difference—it does have an effect—but this effect is more negative than positive. As one representative Brazilian intellectual has argued, foreign aid is good for the U.S. because it helps to maintain a channel for the exercise of U.S. influence in Brazil, to keep in power a Brazilian government friendly to the U.S., and to insure a receptivity in Brazil to U.S. private investment. (This latter point that a main purpose of U.S. aid was to create a favorable environment for U.S. private investment was widely endorsed by AID officials in Brazil.) So far as Brazil was concerned, however, U.S. aid impeded development and sustained the status quo. Development in Brazil could come about through either the emergence of a vigorous national bourgeoisie or by the overthrow of the existing system by a revolutionary elite. U.S. aid encouraged U.S. private investment, which, with its superior resources and managerial talent, now dominated the dynamic sectors of Brazilian industry. (This judgment, too, was confirmed by U.S. aid officials in Brazil.) Hence, there were increasing obstacles to the emergence of an autonomous Brazilian entrepreneurial class. The absence of such a class would place a ceiling on the extent to which Brazil could develop under a capitalistic or mixed economy. At the same time, U.S. military and economic assistance strengthened the repressive powers of the government and consequently made it more difficult for a revolutionary movement to overthrow the existing system. U.S. aid thus condemned Brazil to economic and social backwardness.

In one form or another, this type of argument has been expressed by intellectuals, not all of them either Communist or Marxist, in almost every developing country. These expressions range from the argument by the Chilean psychiatrist, Vincent Sanchez, that U.S. aid is creating "cultural psychosis" in Chile to that elaborated by Ivan Illich that the export of Western concepts, aspirations, and techniques of mass production and consumerism induces "chronic underdevelopment" in poor countries from which the latter can escape only by evolving some fundamentally different alternatives unknown to developed Western societies.[16]

Not only is there an anti-aid rationale developing among Third World intellectuals, but there are also some second thoughts on aid appearing among Third World governments. In Brazil, for instance, the U.S. suspended aid in December 1968 in response to the Institutional Acts disbanding Congress and severely restricting individual liberties. The effects of this action on the Brazilian government, however, were nil. U.S. aid was largely directed towards education and agriculture, and these apparently did not rate very high among the concerns of the military officers running Brazil. The willingness of the governments of Peru, Bolivia, and other countries to risk aid cut-offs under the Hickenlooper Amendment suggests that aid in itself occupies a subordinate position in their hierarchy of values. Such attitudes may seem perverse to Americans preoccupied with development as the overriding goal. Yet it is perfectly natural and rational for the government of a poor country to be as much concerned with *how* its economy develops as with *how fast* it develops. All aid involves some costs for the recipient, and the additional 10 percent investment (supplied by aid) may simply not be worth those costs to many governments.

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[16] *See* New York Times, *August 24, 1969; Ivan Illich, "Outwitting the Developed Countries,"* New York Review of Books, *November 6, 1969; Oswaldo Sunkel, "National Development Policy and External Dependence in Latin America,"* Journal of Development Studies, 6 *(October 1969)*, 23-48.

IX. *A Few Conclusions*

U.S. assistance to the economic development of poor countries has suffered from the tendencies of its supporters to divorce economic development from over-all U.S. foreign policy objectives and, more generally, to make the case for U.S. economic development assistance in terms of the needs of the poor countries rather than in terms of the interests of the United States. Economic development assistance has been underfunded in part because it has been oversold. In this essay, we have attempted to escape from the rhetoric and sentimentality which has so often been adduced on behalf of foreign aid and instead to take a cold, hard look at the interest of the U.S. in the economic development of poor countries. Three general conclusions seem to flow from this discussion:

1. As the wealthiest country in the world, the United States has a moral obligation to help alleviate the sufferings of poor people in poor countries.
2. The United States has some real but not overriding interest, primarily economic and long-term, in the economic development of poor countries generally; it also has some derived political interest in not disappointing the expectations of other governments that it ought to be interested in the economic development of poor countries.
3. The United States has special interests in the economic development of individual countries which are of particular concern to the U.S. usually for noneconomic reasons and the promotion of whose development is an integral part of over-all

U.S. foreign policy toward those countries. Rarely, however, is the economic development of a country the primary interest which the United States has in that country.

In most countries, economic assistance probably helps economic development, but the relationship between levels and types of aid, on the one hand, and economic growth, on the other, is by no means clear. There may also be other policies, particularly in the areas of trade and encouragement of private investment, by which rich governments can equally well promote the economic development of poor countries. Finally but most importantly, the governments of poor countries may have good reasons to prefer less aid rather than more aid.

From this, one can conclude that the U.S. ought to maintain at least three different types of economic assistance programs: humanitarian and related programs aimed primarily at alleviating immediate evils to poor peoples; general economic assistance grants channeled through the World Bank and other multilateral agencies to assist in the over-all economic development of the Third World; and bilateral programs which are an integral part of U.S. foreign policy toward countries where the U.S. has special political, economic, or security interests.

U.S. OVERSEAS LOANS AND GRANTS AND ASSISTANCE FROM INTERNATIONAL ORGANIZATIONS (EXCERPTS) U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

REPORTING CONCEPTS

The current issue of this report continues to summarize and group the individual countries by geographic region, without distinction between developed and "developing countries".

The U.S. programs included in "Economic Assistance" for all countries in this book are equivalent to those included in the U.S. reports to the Development Assistance Committee, (DAC) of the Organization for Economic Cooperation and Development in compiling its statistics on "Official Development Assistance" (ODA)–official concessional aid for development purposes. Currently, the major economic assistance programs carried on by the U.S. are A.I.D., Food for Peace, the Peace Corps, paid-in contributions to international lending organizations (such as IDA and IDB), and assistance to refugees.

On each page, following Section III, *Total Economic and Military Assistance* (Only Economic where there is no Military) is an unnumbered section showing *Other U.S. Government Loans and Grants*; these loans and grants are not part of the economic or military assistance totals above. Export-Import Bank loans are included in this category, as well as other loans, principally the short-term credits under the Commodity Credit Corporation Charter Act, Overseas Private Investment Corporation (OPIC) direct loans, and private trade agreements under Title I, P.L. 480.

From FY 1955 to the present, obligations by year are on a *gross* basis, that is, total new obligations entered into during the year; cumulative totals shown, however, FY 1946-1977, are on a *net* basis, reflecting total obligations for the entire period less deobligations.

I. ECONOMIC ASSISTANCE

a. AGENCY FOR INTERNATIONAL DEVELOPMENT

The data cover commitments for economic and technical assistance made by A.I.D. and its predecessor agencies. Commitments may be defined as development loans authorized and obligations of other A.I.D. funds. A separate memorandum line item has been included for "Supporting Assistance" obligations. The data include obligations for grants and loans from the Supporting Assistance appropriation (excluding funds used for Population Programs FY 1968-1973), as well as obligations from appropriations for Contingency, Special Assistance, Defense Support, Direct Forces Support, Joint Control Area, International Organizations, Indochina Postwar Reconstruction, Middle East Special Requirements Fund, and Assistance to Portugal and Portuguese Colonies in Africa.

The A.I.D. commitments are broken down between loans and grants. The loan total covers all loans made by A.I.D. from all current and past appropriation accounts, including Supporting Assistance and Contingency funds. The loan total also includes "capitalized interest"; this represents interest on prior year loans which rather than being paid when due, is added for accounting purposes to the face amount of the loan, (although it is not new asistance in a physical sense) and is thereafter treated as principal to be repaid with interest. Whenever such capitalized interest accounts for the only loan activity for the year in the particular country, it is suitably footnoted. Beginning with FY 1974, the current year, and the cumulative total of capitalized interest also are identified. The loans made from the Social Progress Trust Fund by the Inter-American Development Bank are not included in the A.I.D. figures, but are included under "Other Economic Assistance".

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*Published in 1978.

b. FOOD FOR PEACE: PL 480 - AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954 AND AMENDMENTS THERETO

TITLE I - SALES AGREEMENTS

Title I provides for the sale of agricultural commodities, either for foreign currency or for U.S. dollars on credit terms. These two types of sales agreements, both at export market value, are handled in this report as follows:

Repayable in U.S. Dollars. Sales on credit terms for U.S. dollars are shown in total as loans, excluding any initial down-payments in dollars which have been specified in some sales agreements. The data exclude any private trade agreements financed under the Act. Some agreements have covered more than one year's program and these have been prorated. Any shortfalls or cancellations through FY 1973 are reflected in the year the agreement was originally signed. Beginning in FY 1974, such reductions are reflected only in the cumulative total, with no adjustments in annual agreements.

Payable in Foreign Currency. The portion of each agreement which is "planned for country use" is included in the country totals in the year the sales agreement was signed. A few agreements are more than a year's requirement. These have been prorated. Adjustments have been made for actual shortfall of deliveries from annual agreements. As in the case of the dollar sales, initial downpayments are excluded. Authority for this type of sale has expired.

TITLE II - DONATIONS

Emergency Relief and Economic Development. This part of Title II authorizes funds for the transfer of agricultural commodities held in stock by the Commodity Credit Corporation, to help friendly countries and needy people to meet famine or other urgent or extraordinary relief requirements, or to promote economic development. Transfers to the World Food Program are included in this part of the PL 480 figures. The data represent commodities authorized, plus ocean freight distributed by country. Commodity values through FY 1969 are at CCC cost; subsequent years are at market value. Starting in FY 1973, the data are shipment levels plus ocean freight which are considered to be the final obligations for the fiscal year.

Voluntary Relief Agencies. The data included under this part of Title II cover only the cost of agricultural commodities donated to voluntary relief agencies such as CARE, National Catholic Welfare Conference, Lutheran World Relief, etc., for distribution to needy people abroad. The figures represent authorizations for voluntary relief agency donations valued at CCC costs through FY 1969, with shipment levels for subsequent years at market value. For years prior to FY 1955, the data represent transfers authorized under Section 416 of the Agricultural Act of 1949 (Public Law 81-439). Cost of ocean freight is not distributed by country, but is included in the Interregional table on page 176.

c. OTHER ECONOMIC ASSISTANCE

Peace Corps includes obligations incurred for the operation of the overseas volunteer program of Action.

Other. Most of the other programs included here were prior to FY 1953. The major programs included are "UNRRA", "Civilian Supplies (including Government and Relief in Occupied Areas)", "Surplus Property Credits", "Civilian Relief in Korea", "Greek-Turkish Aid", "British Loan", and "Philippines Rehabilitation". Currently, the principal programs in this category are paid-in capital subscriptions and contributions to international lending organizations (such as the Inter-American Development Bank and the International Development Association), grants by the Inter-American Foundation, and grants for International Narcotics Control by the State Department.

Also included in this category are loans authorized by the Inter-American Development Bank from the Social Progress Trust Fund, which the IDB administers for the United States; and minor amounts of technical assistance grants from the Trust Fund. Excluded are participations in IDB loans purchased with principal repayments to the SPTF.

II. MILITARY ASSISTANCE

Annual data for both grants and credits beginning with FY 1964 onward are on a "program" basis, as are the cumulative totals. Earlier data are deliveries; the figures for FY 1962 and 1963 have been adjusted to reflect the undelivered amounts as of June 30, 1963.

a. MILITARY ASSISTANCE PROGRAM (MAP) GRANTS

The data represent primarily grants of military equipment, supplies and services including international military education and training purchased with appropriated funds. They also include the cost of repair and rehabilitation of excess stocks furnished with cost to the Military Assistance Program, and the cost of packing, crating, handling and transportation of equipment and supplies. FY 1973-1977 data include the distribution of supply operations by country consistent with previous years.

b. The "credit" data through FY 1968 represent credit sales to recipient countries of military equipment and supplies initially credit-financed with MAP funds, including any credits sold to the Export-Import Bank with Department of Defense guarantees. Data exclude direct cash sales of military equipment. Credit data for FY 1969-1977 represent government credits pursuant to the Foreign Military Sales Act of 1968 (FMS). The cumulative totals represent total governmental credit sales under the Foreign Assistance Act (FAA) and the FMS.

c. MILITARY ASSISTANCE SERVICE-FUNDED GRANTS (MASF)

This category includes all defense articles and services programmed for transfer to foreign countries or international organizations under authority contained in the Department of Defense Appropriation Act, including International Military Headquarters and MAAGs, Missions and Military Groups, initially financed through FY 1964 under MAP funds. Beginning with FY 1977, MAAGs, Missions and Military Groups are being financed with MAP funds.

d. TRANSFERS FROM EXCESS STOCKS

Data in this report reflect original acquisition value of equipment and supplies excess to the requirements of the U.S. military departments granted to countries without charge to MAP appropriated funds. These amounts are included in the totals in this report, as well as similar transfers financed under MASF. Previously, the amount used was the legal value of excess defense articles representing 33-1/3 percent of the original acquisition value.

e. OTHER GRANTS

Included here are the military portion of "Greek-Turkish Aid", "China Naval Aid", "P.L. 454 Philippines Aid" and "Vessel Loans". Since the latter are essentially transfers on an indeterminate basis, generally requiring only the return of the vessel, if available, they are treated here as grants. For these "Vessel Loans", the data represent the estimated value of the vessels; the activation cost is included in MAP data. In addition, beginning in FY 1972, other transfers of material not under MASF, have been included. Also included in this category are other transfers of material to Korea under Section 3 of Public Law 91-652, and foreign military sales to Israel for which payment was waived.

OTHER U.S. GOVERNMENT LOANS AND GRANTS

a. EXPORT-IMPORT BANK LOANS

One additional U.S. agency providing economic and military loans to both governments and other public sector borrowers, during this period is the Export-Import Bank. Most Export-Import Bank transactions are in the private sector. Export-Import Bank loans do not qualify as Official Development Assistance. Direct military loans by the Export-Import Bank in earlier reports were shown as separate entries under "Military Assistance". For years prior to calendar year 1974 Export-Import Bank data include loans for military equipment, but exclude purchased military credits authorized prior to 1970, guaranteed by the Department of Defense. Assistance under these credits is shown as part of the Credit Sales under FMS. Export-Import Bank no longer extends loans for military equipment, nor does the Department of Defense guarantee any Export-Import Bank loans.

These data were compiled by A.I.D. from the official reports of the Export-Import Bank. They represent authorizations in earlier years for loans of five years or more maturity, and those bought by private banks and other institutions. The data also exclude all export guarantees and insurance authorized by the Bank. Beginning with FY 1969, the data include all loans authorized,even those with less than five years maturity.

Cancellations and terminations are deducted from loans authorized. The fiscal year data have been constructed so that if a loan made in one year is increased in a later year, the increase is included in the year it occurred; but if the loan is cancelled, decreased or sold to a non-U.S. government purchaser in a later year, the

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NOTE: Details may not add to totals due to rounding.
**Denotes less than $50,000 where applicable.*
·Principal fully repaid.

loan has been decreased in the year originally authorized. Starting in FY 1973, however, such reductions are reflected in the cumulative total, with no adjustment in the annual data.

b. ALL OTHER

These include short-term credits by the U.S. Department of Agriculture under the Commodity Credit Corporation Charter Act, plus Overseas Private Investment Corporation (OPIC) direct loans, and private trade agreements under PL 480, Title I.

TIME PERIODS

The commitments data for all economic and military programs are shown by U.S. fiscal years arranged in four broad groupings: Post-War Relief Period (1946-1948); Marshall Plan Period (1949-1952); Mutual Security Act Period (1953-1961); and Foreign Assistance Act Period (1962-1977). The Agency for International Development has been in existence only during the latter period, for which appropriate totals are shown.

REPAYMENTS AND INTEREST

The "Repayment and Interest" column shows the cumulative principal repaid and interest collected for the period 1946-1977 against loans made during that period. It includes any repayments or interest collections both in dollars and in foreign currencies; the latter of course, are expressed in dollar equivalents.

For loans fully or largely repaid on which interest has been collected for a number of years, the total repayment and interest figure frequently will be in excess of the original loan amounts. When the entire principal has been repaid under a particular program in an individual country, this has been identified.

SUMMARY FOR ALL COUNTRIES * (U.S. FISCAL YEARS - MILLIONS OF DOLLARS)

U.S. OVERSEAS LOANS AND GRANTS-OBLIGATIONS AND LOAN AUTHORIZATIONS

PROGRAM	POST-WAR RELIEF PERIOD 1946-48	MARSHALL PLAN PERIOD 1949-52	MUTUAL SECURITY ACT PERIOD 1953-61	FOREIGN ASSISTANCE ACT PERIOD 1962-74	1975	1976	TQ	1977	TOTAL FAA PERIOD 1962-77	TOTAL LOANS AND GRANTS 1946-77 **	REPAY-MENTS AND INTEREST 1946-77	TOTAL LESS REPAYMENTS AND INTEREST 1946-77 **
I.ECON. ASSIST.-TOTAL	12,440	18,420	20,953	53,469	4,908	3,878	1,981	5,991	68,778	100,891	20,420	100,463
LOANS	5,967	2,961	5,958	22,388	1,670	1,780	840	2,003	28,449	41,287	20,420	20,620
GRANTS	6,515	16,458	15,063	30,111	3,229	2,119	1,091	3,988	40,189	79,636	-	79,636
A.AID AND PREDECES.	-	14,506	16,905	20,096	2,519	2,331	1,315	3,170	37,442	60,149	7,249	58,900
LOANS	-	1,577	3,286	13,003	809	857	731	1,340	16,744	26,240	7,249	12,999
GRANTS	-	12,929	13,619	15,093	1,710	1,476	584	1,830	20,696	45,901	-	45,901
(SEC.SUPP.ASSIST.)	-))	360))	8,053))	8,053))	1,220))	1,122))	491))	1,760))	13,050))	21,317)		
B.FOOD FOR PEACE	-	83	6,416	16,637	1,328	1,300	192	1,103	20,451	26,493	6,190	20,303
LOANS	-	-	2,526	8,229	868	902	109	735	10,843	12,951	6,190	6,761
GRANTS	-	83	3,890	8,208	460	399	83	450	9,608	13,542	-	13,542
TITLE I-TOTAL	-	-	3,867	13,631	868	982	129	735	13,265	16,693	6,190	10,503
REPAY. IN $-LOANS	-	-	-	6,651	868	962	149	735	7,265	6,862	1,968	4,894
PAY. IN FOR. CURR.	-	-	3,867	5,904	-	-	-	-	5,904	9,831	4,222	5,609
TITLE II-TOTAL	-	83	2,549	5,806	463	396	83	450	7,206	9,800	-	9,800
E.RELIEF,EC.DEV & WFP.	-	-	756	2,750	196	99	25	132	3,200	3,966	-	3,966
VOL.RELIEF AGENCY	-	83	1,795	3,040	266	288	58	326	3,998	5,856	-	5,856
C.OTHER ECON. ASSIST.	12,482	4,265	752	7,936	1,061	265	620	1,220	11,085	28,249	6,069	21,200
LOANS	5,967	976	58	1,056	2	-	-	-	1,058	8,058	6,069	1,969
GRANTS	6,515	3,071	696	6,880	1,059	265	620	1,220	9,827	20,191	-	20,191
CONTR. TO IFI	635	-	109	4,763	784	26	366	931	6,823	7,667	-	7,667
PEACE CORPS	-	-	-	1,078	82	82	27	65	1,356	1,356	-	1,356
OTHER	5,880	3,071	585	1,062	193	139	53	203	1,650	11,190	-	11,190
II.MIL. ASSIST.-TOTAL	481	3,380	20,290	43,882	2,331	2,787	711	2,300	51,380	78,710	2,99[illegible]	75,727
LOANS	-	-	161	4,920	750	1,442	696	1,411	9,027	9,137	2,99[illegible]	6,146
GRANTS	481	3,380	20,079	38,912	1,[illegible]	1,[illegible]	817	964	42,290	69,581	-	69,581
A.MAP GRANTS	-	2,517	22,202	12,763	503	233	78	200	13,936	38,479	-	38,479
B.CREDIT SALES-FMS	-	-	161	4,936	756	1,442	696	1,411	9,027	9,137	2,991	6,146
C.MASF GRANTS	-	-	-	17,977	856	230	30	163	19,272	18,829	-	18,829
D.TRAN-EXCESS STOCK	-	470	1,322	4,753	29	63	1	1	4,847	6,673	-	6,673
E.OTHER GRANTS	481	326	555	2,779	115	756	100	900	4,266	5,606	-	5,606
III.TOTAL ECON.& MIL.	12,943	21,950	40,293	99,671	7,239	6,666	2,642	7,966	120,106	199,669	23,419	176,190
LOANS	5,967	2,961	6,911	27,210	2,429	3,201	1,334	3,404	37,676	50,396	23,419	26,975
GRANTS	6,976	18,989	33,382	64,460	4,810	3,464	1,308	4,498	82,430	149,219	-	149,219
OTHER US LOANS	2,191	898	3,620	19,110	2,751	2,683	884	1,370	26,797	31,398	22,188	9,210
EX-IM BANK LOANS	2,191	898	3,620	16,824	2,569	2,218	665	719	22,934	27,705	19,332	8,373
ALL OTHER	-	-	-	2,286	182	465	279	651	3,863	3,693	2,856	837

* LESS THAN $50,000. TQ = TRANSITIONAL QUARTER SEE COMMENTS IN COUNTRY NOTES SECTION

** VALUES IN THESE COLUMNS ARE NET OF DEOBLIGATIONS. SEE GENERAL NOTES-REPORTING CONCEPTS

HUMAN RIGHTS AND U.S. FOREIGN POLICY*

ISSUE DEFINITION

The basic issue is whether another government's treatment of its own people should be an important factor in U.S. foreign policy formulations and practice. There is wide disagreement between those who feel that the U.S. Government should define the human rights conditions of individuals in foreign countries as being within the internal affairs of that country and therefore outside the appropriate consideration of U.S. foreign policy, and those who favor strict sanctions against governments that violate the basic human rights of their citizens.

BACKGROUND AND POLICY ANALYSIS

During the past few years the topic of human rights has become a very conspicuous and controversial issue in the U.S. Government. Congress has, through hearings, drawn attention to the violation of human rights in other countries and has instituted legislative mechanisms aimed at assuring that U.S. foreign policy actions include consideration of the status of human rights in other countries. An Assistant Secretary of State for Human Rights and Humanitarian Affairs, appointed with the advice and consent of the Senate, and a separate Bureau for Human Rights have been established within the Department of State. Human rights provisions have been written into economic assistance, security assistance and other legislation. Such provisions have included requirements for annual and other reports on the status of human rights in countries receiving U.S. assistance. Assistance to certain countries such as Chile, Uruguay, Argentina, Ethiopia, and the Philippines, has been limited or cut off on human rights grounds.

In his inaugural address President Carter gave significant attention to the importance of a U.S. commitment to and respect for human rights. The outspoken quality of the President and his Administration in subsequent statements on the status of human rights in certain countries has stirred further controversy as to the role that the human rights of foreign citizens should play in U.S. foreign policy. Official U.S. expressions of concern about violations of human rights in particular countries have been viewed by some as threatening U.S. national security, economic, political or other interests. While the promotion of human rights is accepted as a serious moral concern, there is considerable disagreement as to whether it is realistically feasible to give substantial weight to human rights concerns in a U.S. foreign policy which deals with sovereign nations and whose purpose is to safeguard the power and international position of the United States.

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*U.S. Library of Congress. Foreign Affairs and National Defense Division. Human Rights and U.S. Foreign Policy, [by] Vita Bite. [Washington] 1979, p. 1–21. (IB77056).

One of the most difficult problems involved in the issue of international human rights is that of human rights standards. Societies differ substantially in their consensus understandings of basic rights to be accorded all persons. Should the United States apply a single human rights standard to all nations—primitive and advanced, big, and small, friend or foe, neutral or vital national security partner? Some argue that it is neither practical nor appropriate for the United States to be the moral judge for a world in which U.S. and Western concepts of human rights differ markedly from the human rights priorities of other nations and cultures. Others claim that violations in some countries are on such a wide scale and threaten such basic human needs that they transcend cultural and political differences among nations.

Some critics have voiced the opinion that without establishing the notion of minimum substantive rights for every citizen of the globe (a minimum calory intake to sustain life and health, minimum shelter, minimum employment possibilities, etc.) the procedural rights that Americans cherish, and which are widely violated around the world—freedom of speech, assembly, press, religion, and thought—will remain irrelevant for a majority of mankind and probably unattainable as well. Others suggest that maintenance of a basic level of human rights is not inconsistent with the requirements of economic development, even in the most needy nations.

Once a decision is made to take some form of action on a human rights issue, the question arises of how to go about doing so. It is in the area of productive approach that efforts to maintain a single standard, if there can be or should be such, are most sorely tested. Different countries, different cultures, different priorities, and different U.S. interests, may require different U.S. responses. Another problem related to the question of approaches is whether any action by the United States does, in fact, result in a positive change in the human rights practices of another country.

Traditional options exercised in the past have included "quiet diplomacy," public statements or denunciations in international forums, and requests that an international organization take action. Quiet diplomacy was the favored approach of previous Administrations, but was criticized by many as ineffective unless it were made clear that other approaches would be used if quiet diplomacy failed. However, since such actions were taken in private by diplomats who were interested in maintaining working relationships with their counterparts from an "offending nation," "quiet diplomacy" has often generated skepticism as to whether U.S. objections to human rights violations were forcefully conveyed. The case for "quiet diplomacy" is that no government is likely to accept meddling in its internal affairs but may bargain and consider internal changes that it visibly initiates.

Another approach is that of multilateral or unilateral economic sanctions. Rhodesia, the only country against which the United Nations currently imposes economic sanctions, is considered by many to be guilty of violating human rights by its opposition to self-determination for its black majority population. The United States modified its adherence to the Security Council sanctions by permitting the importation of Rhodesian chrome under section 513 of the Military Procurement Act of 1972. After repeated efforts to repeal the amendment, the 95th Congress enacted legislation to halt U.S. importation of Rhodesian chrome

(P.L. 95–12, see Archived Issue Brief 74031, Rhodesia: U.S. Imports of Chrome Ore, for further information).

An approach which has been used recently by both Congress and the Carter Administration has been to limit or cut off provision of economic and/or military assistance to certain countries deemed in gross violation of certain human rights. Another approach which the United States may take to express its displeasure with the human rights situation in a given country is to sever or limit U.S. diplomatic representation.

Two aspects of U.S. policy on human rights have caused particular controversy in recent years. One was silence on repression of dissent in Communist countries, especially the Soviet Union. The second source of controversy was U.S. economic and military assistance to several regimes that had been widely accused of grossly violating the human rights of their citizens. The Ford Administration acted on the premise that U.S. silence on human rights in Communist countries was linked to good relations with the Soviet Union and to progress in world peace and arms limitation agreements (for more information see issue brief 77031 Human Rights in Soviet-American Relations). The Ford Administration also took the position that any cut in aid made on the ground of human rights would be counterproductive, and that aid programs allowed the United States to maintain continued influence in those countries.

The Carter Administration rejected the linkage of human rights and detente by vociferously speaking out against human rights violations in the Soviet Union and Eastern Europe. The Carter Administration has stressed that it is trying to be evenhanded in its public comments on human rights in all countries. Some members of Congress have charged, however, that U.S. concern for human rights in particular countries has been in inverse proportion to the closeness of the U.S. relationship or prospective relationship to that country. Thus, in this view, it is easy to express concern for the human rights of various individuals and groups in such a traditional "enemy" state as the Soviet Union, while little public concern is expressed about human rights situations in such friendly or allied states as the Philippines or South Korea.

On the other side of this position are those who say that U.S. human rights policy has focused too much criticism on rightist governments often friendly to the United States, such as Chile and Argentina, while human rights violations in communist countries such as Cuba, the People's Republic of China and Vietnam have hardly been mentioned. In this view, U.S. human rights policy has been preoccupied with relatively minor abridgements of certain rights in authoritarian states while overlooking massive violations in totalitarian states. Concern has also been expressed that U.S. policy has been so preoccupied with violations in southern Africa, that little has been done about alleged violations in such countries as Guinea and the Central African Empire.

EXECUTIVE BRANCH HUMAN RIGHTS ACTIVITY, 1973–76

In the face of congressional action, Administration policies on international human rights underwent significant changes in the 1973–76 period. The 1973 human rights hearings of the Subcommittee on the International Organizations and Movements of the House Foreign Affairs Committee marked the first time in the decade that Congress directed serious consideration to current developments in the international human rights field. They examined proposals designed to strengthen the role of the United Nations in protecting human rights, and to explore the advisability of giving human rights a higher priority in the hierarchy of U.S. foreign policy objectives. In the spring of 1974 from those hearings emerged a report, entitled, "Human Rights in the World Community: A Call for U.S. Leadership," giving 29 recommendations addressing the human rights issues of the day.

Later that year, Congressman Fraser, Chairman of the International Organization Subcommittee reported that many of the organizational changes recommended in the report had been adopted by the Department of State. Among such recommendations was the designation of human rights officers in all State Department geographic bureaus. A futher recommendation for creation of position of special assistant on human rights in the Deputy Secretary's Office, to insure the consideration of human rights factors at the policy making level, was implemented in mid-1975 by creation of an Office of Humanitarian Affairs. A new position of Assistant Legal Adviser for Humanitarian Rights responsible for legal matters affecting human rights was also created.

Another arena where official U.S. policy appeared to follow the recommendations of the International Organization Subcommittee was in voicing a stronger concern for human rights violations in such international organizations as the United Nations. In March 1975, U.S. Representative to the United Nations, Ambassador John Scali, in a speech which deplored the lack of progress in human rights made by the United Nations in over 30 years, announced that the United States would take a new approach to human rights at the United Nations. He explained that on Feb. 6, 1975, Secretary Kissinger had instructed the U.S. Delegation to the Human Rights Commission in Geneva to support the Commission's conduct of thorough studies on alleged human rights violations anywhere in the world in response to complaints to the Commission that indicated a consistent pattern of gross and reliably attested to violations. The new policy would mean that the United States would support international inquiries into alleged human rights violations in nations regarded as friends as well as adversaries. In following this new policy the United States announced support for the U.N. Human Rights Commission's study of the situation in Chile.

Subsequent U.S. statements in various international forums also called for strengthened international programs and machinery for the promotion and protection of human rights. Thus on November 24, 1976, U.S. Representative to the United Nations, Ambassador William Scranton, charged that needed action on human rights violations by the U.N. Human Rights Commission had died amid procedural difficulties and suggested that the Third Committee establish effective mechanisms that could initiate control on a particular abuse of human rights before it becomes a global issue. Similarly on June 8, 1976 Secretary of State Kissinger in an address before the General Assembly of the Organization of American States (OAS) meeting in Santiago, Chile condemned Chile's violations of "elemental international standards of human rights," warning that U.S. relations with Chile would be impaired until changes were made. He also called on the OAS to broaden the powers of its Human Rights Commission.

Yet, in an October 20, 1976 speech Secretary Kissinger said that the United States must recognize its limitations in dealing with the issue of human rights violations in other countries. He stated that "quiet diplomacy" often is more effective than a "public crusade." Caution was also reflected in State Department responses to congressional initiatives in the human rights area. Thus in response to section 502B of the Foreign Assistance Act of 1974 by which the President was to advise the Congress of extraordinary circumstances necessitating security assistance to any government engaging in gross human rights violations, an unsigned, summary report, entitled, "Report to the Congress on the Human Rights Situation in Countries Receiving U.S. Security Assistance" was transmitted on Nov. 14, 1975 to Congress. The report concluded that human rights violations were common events throughout the world occurring both in countries receiving U.S. assistance and in those which did not:

> In view of the widespread nature of human rights violations in the world, we have found no adequately objective way to make distinctions of degree between nations. This fact leads us, therefore, to the conclusion that neither the U.S. security interest nor the human rights cause would be properly served by the public obloquy and impaired relations with security assistance recipient countries that would follow the making of inherently subjective U.S. Government determinations that "gross" violations do or do not exist or that a "consistent" pattern of such violations does or does not exist in such countries.

The report concluded that "quiet but forceful diplomacy" continued to be the best way to improve human rights matters.

HUMAN RIGHTS ACTIVITY DURING THE CARTER ADMINISTRATION

President Carter began his term with a clear commitment to human rights both at home and abroad. In his first few months in office he spoke out about human rights abuses in the Soviet Union and Czechoslovakia, wrote a letter to Soviet dissident, Andrei Sakharov and received the exiled Vladimir Bukovsky at the White House. Moreover, aid reductions to Ethiopia, Argentina, and Uruguay were announced because of their human rights policies.

President Carter in his Mar. 17, 1977 speech at the United Nations called for strengthening of the U.N. Human Rights Commission and for the implementation of a 12 year old proposal for the establishment of an independent U.N. Commissioner for Human Rights. He also pledged his intention to seek approval for U.S. ratification of some of the U.N. human rights instruments—namely, the Covenant on Economic, Social and Cultural Rights, and the Covenant on Civil and Political Rights as well as the U.N. Genocide Convention and the Convention on the Elimination of all Forms of Racial Discrimination.

President Carter also unequivocally stated the position that the U.S. Government considers human rights to be a matter of international concern:

> All signatories of the U.N. Charter have pledged themselves to observe and respect basic human rights. Thus no member of the United Nations can claim that mistreatment of its citizens is solely its own business. Equally, no member can avoid its responsibilities to review and to speak when torture or unwarranted deprivation of freedom occurs in any part of the world.

Less than a month later the President, in a Pan American Day speech on April 14, pledged increased support for the Inter-American Commission on Human Rights, his intention to sign the American Convention on Human Rights, and support for broadened programs for aiding refugees.

A human rights report on 82 countries was submitted to Congress in March 1977 by the Department of State in compliance with the requirement in section 502B of the Foreign Assistance Act of 1961 as amended, that such a report be transmitted annually as part of the presentation materials for security assistance programs. This report submitted by the Carter Administration but complied for the most part by its predecessor was criticized by human rights activists as too cautious and bland. In protest to the State Department report on their human rights practices and the earlier U.S. announcement of aid reductions to 3 countries because of their human rights activities, five Latin American countries, El Salvador, Argentina, Brazil, Guatemala, and Uruguay renounced U.S. military aid.

The report submitted in 1978 covered 105 countries proposed as recipients of economic and security assistance. The descriptions in this report were somewhat more detailed, but varied from country to country and region to region. The overall congressional reaction was one of dissatisfaction. Some wanted reports on all countries including the Soviet Union, the People's Republic of China and Cuba. Others wanted inclusion of countries like Brazil and Chile (which were not proposed as fiscal year 79 aid recipients under the sections 116 and 502B reporting requirement). Those favoring strong public action by the U.S. on human rights found the State Department report too cautious; on the other hand, critics of the program pointed to the danger and impracticality of requiring State to write open "report cards" on countries with which it was trying to maintain good relations. Most observers agreed that under these circumstances, objective, forthright public reports could not be expected.

The 1979 report which included 115 countries provoked less general congressional and public reaction than earlier reports, except for the section alleging the routine use of torture in Israeli occupied territories.

At the end of 1976 Congress had also required, under section 502B(c) of the Foreign Assistance Act of 1961 as amended, that the Department of State submit reports on human rights and U.S. policy in six countries—Argentina, Haiti, Indonesia, Iran, Peru, and the Philippines. These were submitted to Congress as required in December 1976.

During the spring of 1977 Administration statements on human rights emphasized realism and limits on U.S. action in this area. In a speech on April 30, 1977 Secretary of State Vance, while emphasizing the U.S. commitment to human rights, explained that the promotion of human rights must be realistic, avoiding rigidity and an attempt to impose American values on others. He noted that there are constraints on U.S. policy in this area and that U.S. policy should be determined flexibility on a country by country basis. Secretary Vance also defined human rights as consisting of 3 parts—integrity of the individual, fulfillment of basic human needs, and civil and political liberties. He listed questions which the United States might ask in deciding its human rights policy toward each individual country. Attempts are being made within the State Department to elaborate on the principles outlined in this speech. Until such elaboration is completed, the speech forms the basic guideline for State Department activity in the human rights area.

Recent Administration actions and statements on human rights seem to reflect a more cautious position. Public statements criticizing human rights conditions in other countries have not been issued. The quiet diplomatic approach in advocating improvements in human rights situations in other countries appears to be the recent Administration course. U.S. officials in various contacts with foreign counterparts (for example, Secretary of State Vance during his November 1977 trip to Brazil, Argentina, and Venezuela) are reportedly discussing human rights in private, but little is said publicly. In contrast to his March 1977 speech, President Carter's October 4, 1977 speech at the United Nations did not mention the topic of human rights at all.

President Carter did sign (as he pledged in his spring of 1977 speeches) the American Convention on Human Rights on June 1, 1977, and the U.N. International Covenants on Economic, Social, and Cultural Rights and on Civil and Political Rights on October 5, 1977. These treaties, along with the International Convention on the Elimination of All Forms of Racial Discrimination (signed by the U.S. in 1966), were submitted to the Senate for its advice and consent to ratification on February 23, 1978.

The Carter Administration has differed with the Congress and the two Houses of Congress have differed with each other on some human rights legislation enacted during the 95th Congress. On Apr. 6, 1977, the House by voice vote agreed to human rights amendments to H.R. 5262, authorizing U.S. contributions to international financial institutions. One of these amendments required U.S. officials of all international lending institutions to vote against extending financial assistance to any country found to have a consistent pattern of gross violations of human rights. This amendment was agreed to despite the opposition of President Carter who described such an approach to human rights "at once too lenient and too rigid." The President had favored an amendment which encouraged (but did not require) American representatives to international lending organizations to seek to channel loans to countries other than those engaging in a consistent pattern of gross violations of internationally recognized human rights. The Senate on June 14, 1977, agreed with the President's position not requiring automatic rejection of aid to nations found violating human rights, and so the Senate version of H.R. 5262 contained no section comparable to the above-cited human rights provision in the House bill. The committee of conference retained the House version of the measure except for the mandatory "no" vote. The bill as finally enacted (Public Law 95–118) required U.S. representatives to these

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institutions to "oppose" all assistance to countries engaging in a consistent pattern of gross violations of human rights unless such assistance directly serves the human needs of the citizens of such country.

A similar divergence in congressional and executive views arose over provisions in the Foreign Assistance and Related Programs Appropriations Act, 1978 (Public Law 95–148). As finally worked out after intercession by President Carter, the measure prohibited direct U.S. aid for Uganda, Vietnam, Cambodia, Laos, Angola, Mozambique, and Cuba. The House had voted in June to prohibit international financial institutions from using U.S. funds for assisting the above listed countries, because of their poor human rights records.

In August, after World Bank President Robert McNamara warned that that institution would not accept U.S. funds under the restrictions specified by the House-passed measure, the Senate deleted such a provision from the bill. After a House-Senate conference was unable to resolve the issue, President Carter (opposed to the House version) met with congressional leaders on Sept. 30, 1977, to work out a compromise. On Oct. 6th the President wrote a letter to Clarence Long, Chairman of the Foreign Operations Subcommittee of the House Appropriations Committee, in which Carter promised to instruct the U.S. representatives to international lending institutions to oppose and vote against any loans to the seven named countries during fiscal year 1978. The legislation as finally enacted into law prohibited direct U.S. aid to the seven countries.

By the end of 1978, human rights provisions had been added to the full range of U.S. foreign assistance programs—from the International Monetary Funds Supplementary Financing Facility to international military education and training programs to programs of the Overseas Private Investment Corporation. At the same time, there was a clear indication of limits on the kind of human rights provisions Congress would continue to support. A strong human rights provision added to legislation on the International Monetary Fund's Supplementary Financing Facility was passed by the House, but was overwhelmingly defeated by the Senate and deleted from the final legislation. Similarly, with the Carter Administration strongly campaigning against the addition of stringent human rights provisions to Export-Import Bank legislation, the House overwhelmingly refused to add a requirement that the Export-Import Bank be barred from advancing loans to human rights violators. The basic argument against the amendment was that the Bank was concerned not with aid but trade. In this view, although Congress might have no particular hesitation about restricting U.S. aid, it was another matter to place restrictions on an institution whose purpose was to promote the export of American goods and thus to help both unemployment and the balance of payments.

HUMAN RIGHTS LEGISLATION ENACTED SINCE 1973

Current congressional legislative initiatives on international human rights began in 1973. Since the enactment of the initial 1973 measures, provisions relating to human rights have been incorporated into almost every major piece of legislation relating to foreign relations. Enacted human rights provisions are annually undergoing amendment, expansion, or refinement. The human rights provisions enacted through the end of 1978 are described in the following summary (by year and by Act).

1973

Foreign Assistance Act of 1973, Public Law 93–189, Dec. 17, 1973

Expressed the sense of Congress that the President deny economic or military assistance to any country which interned or imprisoned its citizens for political purposes.

Prohibited use of funds available under the Foreign Assistance Act for police training or related programs in a foreign country.

Expressed the sense of Congress that the President should take certain actions relating to protection of human rights in Chile.

1974

Foreign Assistance Act of 1974, Public Law 93–559, Dec. 30, 1974

Expressed the sense of Congress that "except in extraordinary circumstances, the President shall substantially reduce or terminate security assistance to any government which engages in a consistent pattern of gross violations of internationally recognized human rights, including torture or cruel, inhuman or degrading treatment or punishment; prolonged detention without charges; or other flagrant denials of the right to life, liberty, and the security of person." If assistance were to be furnished despite human rights violations, the President was to advise Congress of the extraordinary circumstances necessitating the assistance.

Prohibited use of funds available under the Foreign Assistance Act for training or any financial support for police, prisons or any program of internal intelligence or surveillance on behalf of any foreign government.

All military assistance to Chile was prohibited and economic assistance was limited to $25 million.

Called on the United States to encourage U.N. support for a peaceful transition to independence, negotiated settlement of all differences, and "protection of human rights of all citizens" in Angola, Mozambique, and Guinea-Bissau.

Trade Act of 1974, Public Law 93–618, Jan. 3, 1975

Tied most-favored-nation treatment in trade with nonmarket economy countries to the maintenance of freedom of emigration from such countries.

1975

International Development and Food Assistance Act of 1975, Public Law 94–161, Dec. 20, 1975

Prohibited economic assistance to any country which consistently violates internationally recognized human rights unless the aid will directly benefit the needy. In determining whether this standard was being met, the foreign relations committees of either House could require a written report demonstrating that such assistance would directly benefit the needy people. If either committee or House of Congress disagreed with the justification, action to terminate assistance might be initiated. In determining whether a country was a human rights violator, consideration was to be given to the extent of cooperation of such government with investigations by international organizations. The President was annually to transmit to Congress a report on compliance with these provisions.

Economic assistance to Chile was limited to $90 million during fiscal year 1976.

1976

Inter-American Development Bank and African Development Fund, Public Law 94–302, May 31, 1976

Authorized and directed the U.S. executive directors of these institutions to vote against any loan or assistance to any country which consistently violates internationally recognized human rights unless such assistance would directly benefit the needy people in such country. In determining whether this standard was being met, the House and Senate foreign relations committees and the House Committee on Banking, Currency, and Housing were authorized to require information which would identify whether assistance to such country would directly benefit the needy people.

International Security Assistance and Arms Export Control Act, Public Law 94–329, June 30, 1976

Established as a principal goal of U.S. foreign policy the promotion of increased observance of internationally recognized human rights by all countries. Established as U.S. policy the prohibition of security assistance to governments that engage in a consistent pattern of gross violations of internationally recognized human rights.

Established within the Department of State a Coordinator for Human Rights and Humanitarian Affairs to be appointed by the President with the advice and consent of the Senate.

Required the Secretary of State to submit reports each fiscal year on human rights practices in each country proposed as a recipient of security assistance.

Required that upon request of either the House of Senate or of either foreign relations committee, the Secretary of State prepare, with the assistance of the Coordinator, a statement on a designated country's human rights practices including information on the steps the United States had taken to promote human rights in that country.

Established that, if such a statement on a designated country is not transmitted within 30 days, security assistance to that country would cease until the statement was transmitted.

Provided that after the requested statement was transmitted, Congress might reduce or cut off security assistance to the designated country by adoption of a joint resolution.

Expressed the concern of Congress for the erosion of civil liberties in South Korea and requested the President to communicate this concern in forceful terms to the South Korean government.

Terminated military assistance to Chile and limited economic assistance to $27.5 million.

Foreign Assistance and Related Programs Appropriations Act, 1977, Public Law 94–441, Oct. 1, 1976

Prohibited military assistance to Uruguay.

1977

International Development and Food Assistance Act of 1977, Public Law 95–88, Aug. 3, 1977

Required the Administrator or AID in consultation with the Coordinator for Human Rights and Human Affairs to consider specific actions which have been taken by the President or Congress relating to multilateral assistance or security assistance because of human rights practices or policies.

Revised the existing reporting requirement mandating that the Secretary of State transmit to Congress, by January 31 of ecah year, a full report on the status of internationally recognized human rights in the countries receiving development assistance, including the steps the Administrator had taken to alter U.S. programs in any country because of human right considerations.

Earmarked not less than $750,000 to be used for studies to identify and for carrying out programs and activities which encourage or promote increased observance of civil and political rights as set forth in the Universal Declaration of Human Rights.

Section 203 of this legislation added a new section 112 to Public Law 480, title I, programs which prohibited entry into any agreement under that title to finance the sale of agricultural commodities to the government of any country which engages in a consistent pattern of human rights violations, unless such agreement would benefit the needy people in such country.

International Security Assistance Act of 1977, Public Law 95–92, Aug. 7, 1977

Expressed the sense of the Congress that the United States supports "an internationally recognized constitutional settlement of the Rhodesian conflict leading promptly to majority rule based upon democratic principles and upholding basic human rights."

Prohibited assistance, credits or sales to Argentina. The House bill had amended section 502 of the Foreign Assistance Act to prohibit military assistance and sales which would aid the efforts of foreign governments to repress the legitimate rights of their citizens contrary to the Universal Declaration of Human Rights. This provision was deleted by the Conference Committee.

Foreign Relations Authorization Act, 1978, Public Law 95–105, Aug. 17, 1977

Elevated the Coordinator for Human Rights and Humanitarian Affairs to an Assistant Secretary for Human Rights and Humanitarian Affairs. It also required the Secretary of State by Jan. 31, 1978, to transmit to Congress a comprehensive report on the Office of the Assistant Secretary "including its current mandate and operations, the mandate and operations of its predecessor offices, and proposals for the reorganizations of the Department of State that would strengthen human rights and humanitarian considerations in the conduct of United States foreign policy."

Called on the United States to consider proposals for reforming and restructuring the U.N. systems which would improve coordination of and expand U.N. activities on behalf of human rights.

Expressed the sense of the Congress that Cuba's disrespect for the human rights of individuals must be taken into account in any negotiations toward normalization of relations with that country.

Authorization for International Financial Institutions, Public Law 95-118, Oct. 3, 1977

Provided that the U.S. Government shall advance the cause of human rights through those organizations by seeking to channel assistance to countries other than those which show a consistent pattern of gross violations of human rights. The United States is to seek to channel assistance to projects which address the basic human needs of the people of the recipient country. The Secretaries of State and Treasury are to submit an annual report to Congress on programs in achieving the human rights goals in this section. The U.S. executive directors of the international financial institutions are to oppose any loan, any extension of financial assistance or any technical assistance to countries engaging in a consistent pattern of gross violations of internationally recognized human rights or providing refuge to individuals committing acts of international terrorism by hijacking aircraft, unless such programs serve basic human needs.

Required the U.S. Government to initiate consultations with other nations to develop a standard for meeting basic human needs and protecting human rights and a mechanism to insure that the rewards of international economic cooperation are especially available to those subscribing to such standards.

Export-Import Bank Act of 1945 Amendments, Public Law 95-143, Oct. 26, 1977

Amended section 2(b)(1)(B) of the Export-Import Bank Act of 1945 relating to the policy of the United States on loans by requiring the Board of Directors to "take into account, in consultation with the Secretary of State, the observance of and respect for human rights in the country to receive the exports supported by a loan or financial guarantee and the effect such exports may have on human rights in such country."

Foreign Assistance and Related Programs Appropriations Act, 1978, Public Law 95-148, Oct. 31, 1977

Barred military education and training funds for Argentina.

Prohibited direct U.S. aid to Uganda, Vietnam, Cambodia and Laos; prohibited such aid to Angola and Mozambique; and prohibited assistance to Cuba.

Prohibited military assistance, international military education and training, or foreign military credit sales to Ethiopia and Uruguay.

Prohibited foreign military credit sales to Argentina, Brazil, El Salvador and Guatemala.

Limited appropriations for the Philippines to $18,000,000 for military aid, $1,850,000 for military credit sales, and $700,000 for training.

Prohibited security assistance to any country for aiding directly the efforts the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights.

Expressed the sense of Congress that U.S. representatives to international financial institutions oppose loans and other aid to nations systematically violating human rights, except when the President determined that rights would be better served by not voting against such assistance or when the aid was intended to go directly to the impoverished majority of the country.

Overseas Private Investment Corporation Amendments Act of 1978, Public Law 95–268, Apr. 24, 1978.

Amended section 239 of the Foreign Assistance Act of 1961, as amended, by adding subsection (1) providing that the Corporation, in consultation with the Secretary of State, take into account in the conduct of all its programs in a country, all available information about observance of and respect for human rights and fundamental freedoms in such country and the effect the operation of such programs will have on human rights and fundamental freedoms in such country. The provisions of section 116 of the Foreign Assistance Act are to apply to any insurance, reinsurance, guaranty, or loan issued by the Corporation for projects in a country, except in addition to the exception with respect to benefiting needy people, the Corporation may support a project if the national security interest so requires."

International Security Assistance of 1978, Public Law 95–384, Sept. 26, 1978.

Amended the wording of the first three paragraphs (policy statement) of section 502B of the Foreign Assistance Act. According to the conference report, the intended effect of this amendment was to substitute for the current policy statement a legal requirement to deny security assistance to any country whose government engages in a consistent pattern of gross violations of internationally recognized human rights, unless the Secretary of State finds that extraordinary circumstances necessitate a continuation of security assistance for such country, and that, based on all the facts, it is in the national interest of the United States to provide such assistance.

Added the provision that security assistance may not be provided to the police, domestic intelligence, or similar law enforcement forces of a country, that licenses may not be issued under the Export Administration Act of 1969 for the export of crime control and detection instruments and equipment, and that assistance may not be provided under chapter 5 (international military education and training) to a country which engages in a consistent pattern of gross violations of internationally recognized human rights, unless the President certifies in writing to the Speaker of the House and the Chairman of the Senate Foreign Relations Committee that extraordinary circumstances exist warranting provision of such assistace and issuance of such licenses.

Added a third subsection to the purposes (section 543) of the chapter on international military education and training as being: "to increase the awareness of nationals of foreign countries participating in such activities of basic issues involving internationally recognized human rights." (The Senate version had prohibited use of fiscal year 1979 international military education and training funds for Nicaragua and Paraguay. The conference committee eliminated naming specific countries, but reduced the international military education and training account by $300,000, the exact amount programmed for both Nicaragua and Paraguay.)

Required the President to submit to Congress by De.c 31, 1979, a review of U.S. policy toward the Soviet Union. Among other topics, the review is to include the policies of the United States toward human rights conditions in the Soviet Union and how improved Soviet respect for human rights might be more effectively encouraged, and what linkages exist, or should or should not exist, between various elements of U.S.-Soviet relations such as arms control negotiations, human rights issues, and economic and cultural exchanges.

International Development and Food Assistance Act of 1978, Public Law 95-424, Oct. 6, 1978.

Amends section 116(e) of the Foreign Assistance Act of 1961 authorizing and encouraging the President to use not less than $1.5 million of development assistance funds in fiscal year 1979 for programs and activities to encourage or promote increased adherence to civil and political rights, as set forth in the Universal Declaration of Human Rights.

Foreign Relations Authorization Act, Fiscal Year 1979, Public Law 95-426, Oct. 7, 1978.

Stated the finding of Congress that news dissemination and free flow of information across international boundaries are vital to good relations among nations and that there are strong indications that in many countries foreign journalists are subject to governmental harassment and restrictions.

Expressed the sense of Congress that the President should advise foreign governments engaging in such harassment and restrictions of journalists that the United States regards such actions as a significant and potentially damaging factor in U.S. relations with such country and that the President should raise the issue of the treatment of foreign journalists in appropriate international forums. It directs the President to report to the Congress by Jan. 20, 1979, on actions taken pursuant to this section.

Stated the finding of Congress that reliable reports attest to the existence in Cambodia and Uganda of governmental practices "of such systematic and extensive brutality" as to require special notice and condemnation.

Urged the President to support multilateral and bilateral action by countries having extensive relations with the two countries to bring about a lessening of inhumane practices.

Directed the Secretary of State to transmit to Congress not later than Jan. 20, 1979, a report of actions taken to fulfill (b). Expressed the sense of Congress that the President should (1) prohibit the export of military and related equipment to Uganda; (2) prohibit the issuance of a visa to any Ugandan official for the purpose of military, paramilitary, or policy training in the United States unless the Department of State determines that Uganda has demonstrated proper respect for the rule of law and internationally recognized human rights; and (3) instruct the U.S. representative to the United Nations to submit to the Security Council a resolution imposing a mandatory arms embargo on Uganda.

International Monetary Fund Supplementary Financing Facility, Public Law 95-435, Oct. 10, 1978

Required the Secretary of the Treasury, in consultation with the Secretary of State, to prepare and submit to Congress an annual report on the observance of internationally recognized human rights in countries using the facility. Section 5 states that Congress finds that the Government of Uganda had committed genocide, and that the U.S. Government should disassociate itself from any foreign government engaged in genocide. It prohibited import into the United States of any article grown, produced, or manufactured in Uganda, and from exporting to Uganda anything other than cereal grains and food products, until the President determines and certifies to the Congress that the Government of Uganda is no longer committing a consistent pattern of gross violations of human rights. The President is directed to encourage and support international sanctions, including economic restrictions to respond to conditions in Uganda.

Appropriations for Foreign Assistance and Related Programs, 1979, Public Law 95–481, Oct. 18, 1978

Prohibited direct assistance to Uganda, Cambodia, Laos, or Vietnam, but exempted aid for graduate students from Uganda studying at U.S. institutions.

Prohibited direct U.S. aid to Mozambique or Angola, but exempted funds for financing training of Angolan students who started training prior to fiscal year 1978.

Barred the use of funds for direct aid or trade with Cuba.

Prohibited assistance to any country "for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights."

Required the President to direct U.S. represntatives to the international banks to propose and seek adoption of amendments to the Articles of Agreement of such institutions to establish human rights standards to be considered in connection with loan applications.

Export-Import Bank Amendments, Public Law 630, Nov. 10, 1978

Deleted the human rights provision added by the 1977 legislation (P.L. 95–143) and provides instead that "only in cases where the President determines that such action would clearly and importantly advance U.S. policy" in areas such as human rights, should the Export-Import Bank deny applications for credit for non-financial or noncommercial consideration.

The measure also includes provisions which prevent the Export-Import Bank from extending credit for any export to the South African government that would contribute to the maintenance or enforcement of apartheid by that government (unless the President determines that significant progress towards the elimination of apartheid has been made and transmits to Congress a statement describing and explaining that determination); for any export to other purchases in South Africa unless the Secretary of State certifies that the purchaser has endorsed and has proceeded to adopt the following principles: non-segregation of races in all work facilities; equal and fair employment for all employees; initiation and development of training programs to prepare non-white South Africans for supervisory, technical, and clerical jobs; increasing the number of non-whites in management and supervisory positions; willingness to engage in collective bargaining with labor unions; and improvement of the quality of life for all employees.

Should Observance of Basic Human Rights Be a Prerequisite for Aid?*

By Edwin M. Martin

I'D LIKE TO PROPOSE A POSITIVE STATEMENT of what I think U.S. policy should be with respect to aid and human rights.

"Aid should be given to an LDC when doing so is more likely to improve the observance of basic human rights in the future than withholding it."

I want to make half-a-dozen general comments on this policy and its implementation and then talk about handling aid specifically.

It is a pragmatic criteria—how can we effect what happens elsewhere?—how we feel about ourselves is irrelevant; there is no room for actions to soothe our consciences or vent our anger at violations.

We are dealing with societies in various stages of progress toward modernization. Most of them have ancient and strongly held cultural patterns and institutional arrangements which more often than not are quite different in the fields covered by human rights from those of the English common law or the Napoleonic civil code. Moreover, the conditions of life with which these institutions and value systems have to deal are quite different from our own, not only economically but also politically, as many of them find themselves in a no-man's land between traditional and modern societies.

What are the basic human rights to be observed? It is not a phrase that is self-defining, glibly as we are accustomed to using it. For Americans the most familiar summary of what we hold dear is in the Declaration of Independence—"all men are created equal, that they are endowed by their creator with certain inalienable rights, that among these are life, liberty and the pursuit of happiness."

Starting from this statement, I identify five types of human rights as deserving U.S. support:

1. Laws protecting rights such as movement, speech, political organization, etc.

2. Methods of enforcement of all laws which ensure a rational process for the fair and prompt determination of guilt or innocence.

3. Institutional arrangements which permit adult citizens to play a role, directly or indirectly, in policymaking by their government.

4. Absence of discrimination for reasons of race, religion, wealth, sex, etc., in the formulation and application of laws or public pro-

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grams, or in significant human relationships of a non-governmental character.

5. Provision of basic human needs without which "life" is endangered, "liberty" is a fraud, and "happiness" cannot be pursued but only starvation and disease postponed a bit.

Since economic aid has a direct relation to point (5), economic human rights, I'd like to say a little more about them. First, I wish to read a quote:

"Human needs are inseparable from human rights—that while civil and political liberties are good in themselves, they are much more useful and much more meaningful in the lives of people to whom physical survival is not a matter of daily anxiety.

"To have sufficient food to live and work, to be adequately sheltered and clothed, to live in a healthy environment and be healed when sick, to learn and be taught—these rights, too, must be the concerns of our governments. To meet these needs, orderly economic growth is crucial. And if the benefits of growth are to reach those whose need is greatest, social justice is crucial as well."

This quote is from the address of President Carter to the Indian Congress last month. I endorse all of it but would add two basic needs. The first is that all parents have the effective capacity to have the number and spacing of children they want. The second is that a job which will provide a decent living for oneself and those for whom one is responsible is a central economic right, basic to self-respect. It is also usually the most efficient way to meet other basic needs. Since first writing this paragraph, I was pleased to hear President Carter refer in his State of the Union message to a job as a human right.

"Observance" of human rights means, of course, "observance" in practice, not just in theory or in law. The most basic right is the right to enjoy one's rights. A perfect legal and judicial system is no protection if one is unable to know what one's rights are or doesn't have the money to defend them. Economic rights are even more dependent on availability of resources.

"Observance" also should follow the rule established in our quote from the Declaration of Independence that "all men are created equal." Violations of the human rights of any person—the tortures endured by a starving infant in an Asian village or inflicted by the political police on a distinguished scientist—are equal, abhorent crimes which should be of equal concern to us.

Sticking to the rule of the equality of all humans precludes the application of a double observance standard in choosing countries as targets for our human rights efforts. Exceptions should have to be justified fully on major U.S. national security grounds, with the burden of proof clearly on those who would make exceptions.

One may have to seek observance of some rights while accepting stagnation with respect to others. Particularly difficult is the trade off between freedom and order. I suspect a good many Americans living in our cities would give up a few legal freedoms to feel able to take a walk around the block after dark without fear of being mugged; for them it would be a not inconsiderable freedom. The potential for conflict between order and economic progress in many LDCs is even more serious, hard for us at our level of income to appreciate.

When human rights and their observance are so defined it is clear that what we need are changed attitudes toward them throughout a society. Otherwise we may get favorable public actions from government leaders from time to time but not the constant vigilance at every level in public and private actions, which is necessary to assure their observance.

If one accepts this emphasis on attitudes rather than merely legal rules, one must look for the best means to motivate people to want to improve human rights conditions in their community and country. I feel that punishment can often produce compliance but seldom believers and what we need are more true believers. Converts are made by communication, not by iron curtains.

I would, therefore, put no limit on what we say publicly or privately, except that public statements should be designed solely to promote observance of human rights, not to boost our pride in ourselves.

We need a strong dose of humility in our approaches to this issue. There will surely be many surprises, pleasant and unpleasant, no matter what we or other outsiders may do—the Nazi and Fascists regimes in our century are prime examples of the latter and India last year of the former. But we must keep trying, evaluate the results continously and alter our tactics accordingly. Our knowledge of the chemistry of international dealings is still in its infancy.

What are the tools given us by foreign aid to pursue our human rights goals? I see foreign aid as falling logically into two quite different categories for this purpose. First, there is that designed to do our share in cooperative programs with developing countries to improve the economic, social and political conditions of their peoples. In this category, I put bilateral and multilateral economic aid and food aid. Second, there are those activities designed to strengthen, directly or indirectly, the military power of foreign goverments. In this category, I put military assistance and our related programs of supporting assistance. I realize that these compartments are not watertight in either direction, but the differences are deep enough to justify separate treatment for our purposes.

Let me treat military assistance first. As a general principle, I am against giving it to countries with poor human rights records. Adding to the military strength of such a government can only help it to keep the lid on its opponents and block change. There would rarely be any compensating benefit for human rights from such aid which could outweigh the encouragement given to human rights violators by the close political friendship which military cooperation inevitably implies, going far beyond the significance of economic aid cooperation.

The only rational exceptions to this rule that I can think of would be situations in which the receipt of military assistance from the U.S. would strengthen the position of a government threatened by external or internal enemies from the right or left whose accession to power would be likely to make the human rights situation appreciably worse. But the threat and the need for our help must be clear and success probable. Even in such cases I would like to believe that the government being helped was prepared to make an honest effort to improve human rights conditions, either on its own or as a condition for receiving such aid from us.

It is also particularly likely to be the case with military assistance that other foreign policy considerations will be thought to outweigh those of human rights. But I would put the burden of proof squarely on those who would seek such an exception to the policy I have advocated.

When it comes to economic aid, I would reverse the U.S. position, putting the burden of proof very much on those who would withhold it for human rights reasons, even though there is no doubt that the usual effect of giving economic aid to a country is to strengthen the position of the government in power. If it is a government with a record for violating human rights, that is bad. But it isn't the whole story. It is not inevitable that a stronger government will be more repressive. It sometimes turns out to be the reverse. And quiet talks associated with our aid transaction can sometimes make sure that conditions improve.

Moreover, if wisely chosen and supervised, the aid can bring about improvements in the short term in the basic needs aspect of human rights, as the Congress has recognized. This may outweigh lack of progress in other human rights areas. To enable aid to do so we must accept several giudelines for our aid activities. First, help must go most generously to those countries most in need of our aid to meet such needs, and prepared to use the total resources available to them in ways which give a proper priority to meeting the needs of their poorest citizens.

We must also recognize that a new road or power line, seed, fertilizer or food aid for poor rural areas cannot be restricted as to use to just the poor in the region served. We can only select areas in which the poor predominate and make a special effort to encourage and facilitate their use of them.

It is essential too, that we recognize that it is not rational to seek virtue for ourselves alone by requiring that all our aid go directly to the poor and that other donors do the rest. For there is an essential rest — just meeting human needs even depends on infrastructure investments as well as direct help for the poor.

Giving reality to the right to a job depends heavily on that "overall economic growth," which President Carter endorsed in his New Delhi speech. Of course, it is also necessary to stress labor-intensive technology and open export markets for labor-intensive products, the latter a problem about which I need say no more to this audience.

More important, however, is the effect that the right aid programs can have on the long-term evolution of the attitudes of society. Development is change and, if the situation is bad, what is needed is change. No doubt it will be slow, even zig-zag, as it has been and still is in some fields in the U.S. Let us not become impatient if, despite our aid, there appears to be backsliding here and there.

As an example of the long-term potential of aid, support for democratic principles has almost invariably in the past come from people above poverty line and with some education. And governments selected democratically have generally improved the observance of other types of human rights. There is no guarantee, of course, of this outcome, especially in the short run, but progress has seldom been made without this contribution of "overall economic growth." Slums, urban or rural, can produce only mobs, not democratic political parties.

Finally, my NO vote rests on the ineffectiveness of the only alternative to giving aid in the way I have urged, namely, denying it to regimes with poor human rights records. Unfortunately, U.S. economic aid is seldom important enough to a country that denying it will force a government to change its basic policies. These policies have usually been chosen because they are considered necessary to stay in power. And survival is just as fundamental a goal for governments as for people.

If, however, U.S. economic aid should be large enough that denial would cause trouble—unlikely as long as U.S. aid appropriations are so small for so great and rich a country—let us remember that all our experience suggests that democratic societies, devoted to human rights, have never been nourished on the soil of economic depression and cannot be constructed overnight by dictatorial fiat. The more likely result will be even greater political repression to maintain order in the face of the worsening condition of economic human rights, made inevitable by the aid denial. An already bad government is likely to find this their only answer.

To summarize, at base what is required in repressive societies is change, changes in value systems and changes in power structures. Development aid, wisely given, can change current attitudes only slowly, but it can open a few windows, widen opportunities for some people, create communities capable of doing more things for themselves and proud of it. All these are steps toward increased respect for themselves and for others as human beings, steps which inevitably undermine that blind acceptance of centralized authority which is the antithesis of respect for human rights.

Let us then seek in every way we can for pragmatic levers which will improve human rights abroad, political and economic, and think hard about what will work, never substituting high moral fervor for action that will accelerate the process of change. And above all, let us never forget that the most effective instrument we have is very probably the example we present to the world of a society which respects the human rights of all and in which the result is an enhanced quality of life for all, a better opportunity to enjoy "life, liberty and the pursuit of happiness." For observance of basic human rights is a valid goal only so long as we use it to improve this quality of life. ■

Address to the 25th Annual International Development Conference, Washington, D.C.

AMERICA'S RELATIONS WITH DICTATORS*

by

DR. ANTHONY L. WERMUTH

This paper confines itself to those eruptions of moral outrage that address a single theme among the thousand themes of which American foreign policy is comprised: "Why does the United States continue to prop up dictators around the globe?"

In some respects, the question may appear simple-minded, equivalent to asking "Why does the United States negotiate with foreign representatives who are right-handed, or negotiate on weekdays or before lunch?" Upon reflection, the question does not seem so simple.

The question is often asked in contexts indicating it is asked not out of curiosity or innocence, but out of ideology. Frequently, the form of the question expresses one recurrent American trait: moralistic denunciation (quite different from morality). A judgment is already included, as in the old cliché question: "Have you stopped beating your wife?"

Here are a few examples of recent interrogation or allegation along this line.

Thomas M. Franck and Edward Weisband wrote in *The New York Times* about then-Ambassador Moynihan's vigorous defense of American foreign policy:

> To rally the forces behind the tattered flag of human dignity and individual worth is a splendid endeavor. Yet [the United States representative] must also insure that he is seen to carry the banner with clean hands. If he cannot persuade Washington and American business to stop subsidizing fascism in Spain and Chile or racist regimes in Southern Africa, his crusade will merely appear naive or hypocritical.[1]

Columnist Clayton Fritchey wrote in *The Washington Post* about the American introduction into the United Nations of a draft resolution on amnesty for political prisoners:

> It sounds great at first, until others start asking why the United States for so many years has supported so many despotic governments that have specialized in

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> locking up, torturing, and killing their political opponents.[2]

Early in 1976, Mr. Ramsey Clark and three colleagues denounced conditions in Spain in a letter to *The New York Times*:

> . . . We are particularly outraged by th[illegible] arrest of 55 lawyers gathered in a private home, followed by a police assault on 150 attorneys and others who peacefully petitioned for the release of their colleagues. . . .

Mr. Clark and colleagues then made it clear that what they were really denouncing was "the 'traditional' US policy of supporting dictatorships anywhere and everywhere."[3]

CATEGORIZING FOREIGN REGIMES

Is there some universal set of standards by which to judge American styles in dealing with foreign regimes? Are all regimes in the world headed either by dictators or by democrats? Does one deal with all dictators in an identical way?

Actually, there are about 160 regimes in control of the nations of the world, and no two are exactly alike, whether monarchies, republics, tyrannies, juntas, oligarchies, theocracies, or whatever.

In order to manage the data, let me suggest a typology, a categorization of the 160 regimes into 4 groups: Communist totalitarians, non-Communist totalitarians, democracies, and the others—a mixed lot, mostly authoritarians. Can we establish that different patterns of relationship characterize America's dealings with each group? Halpern suggests that:

> . . .it may be possible . . . to distinguish among (1) countries which, despite tyranny (or its obverse, instability), are yet some distance from internal warfare involving extremists, or foreign adventurism inviting aggression; (2) countries which, like Ataturk's Turkey, have chosen an authoritarian road that is intended to lead to democracy; and (3) countries like the Union of South Africa, Iran or Jordan, which are clearly heading for the kind of catastrophic internal or external explosion which will make intervention by outside powers unavoidable.[4]

Obviously, considerable differences obtain within each group. Even among the Communist totalitarian regimes, there have been basic differences among the regimes of Lenin, Stalin, Mao, Castro, Kim Il Sung, Ho Chi Minh, and their ideological look-alikes.

THE UNPROPPED COMMUNIST TOTALITARIANS

Despite the uniqueness of each nation in a number of respects, this is one category of dictators which is emphatically not propped up by the United States.

I must say, at the outset of discussion of this category, that I decline to diabolize Communism or Communists; I do not care to encourage a rabid obsession that regards every occurrence adverse to America as Communist-generated, or that regards every Communist challenge as requiring renewal of the Cold War, or as threatening our immediate survival. All kinds of social changes are

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challenging us that have nothing to do with the Communists. And all the important give and take in world dynamics is not restricted to the Russian-American dyad.

What common characteristics identify this group? First of all, without diabolizing the movement, we observe that Communist regimes share the common characteristic of operating on a number of repressive principles that are abhorrent to most Americans.

Secondly, one notes, it is now fashionable in some quarters to observe that the Communist movement is no longer monolithic (to be sure, it never was literally 100 percent monolithic, but it was close enough to achieve the same effect), as though that statement established some premise that the movement is no longer an adversary, or no longer powerful, or no longer dangerous. When opportunities occur to diminish the strength of the United States, or to pry another geographical unit and its population loose from the non-Communist world, whatever the disagreements may be among Moscow, Peking, Hanoi, and so on, the whole Communist world more or less "monolithically" provides the goods of war to the Communist side of the conflict, as in Vietnam. And, of course, the worldwide sophisticated Communist propaganda network is always more or less at top efficiency—grinding out gratuitous "monolithic" denunciations of the free world. These are marks, not only of substantial linkage, but also of an unrelenting (though prudent) expansionist ethic.

Because of its great power, and its opposition to the Communist system of internal and external operation, America became and remains the principal obstacle in the path of Communist objectives (however fragmented and variously "un-monolithic" those objectives may be in the current world).

The writings of Alexander Solzhenitsyn, Andrei Sakharov, and others, reaching the West, supplementing a number of other indicators, testify to the emergence of definite cracks in the Iron Curtain. They also substantiate the continuance of many rigidities. Do we disbelieve those Russians, who confirm our intelligence data? Shall we pretend that they do not know what they are talking about, and that, for example, Jane Fonda's opinion is much more reliable on what the Communist movement is still about?

How much has been eroded? In a 1975 book generating a furor in European political circles, Jean-Francois Revel wrote:

> . . . Following the lead of the Communist Party in Italy, the French Communists have been trying to show that they are now dedicated to democratic principles and a pluralistic society and that they are independent of Moscow. . . .[5]

At Helsingor, Denmark, on January 18, 1976, at a conference of 18 European Socialist Parties, Chancellor Helmut Schmidt of West Germany opposed cooperation with Communist parties; but in a realistic fashion, he observed:

> . . . the Communists are large parties in France and Italy, and they won't disappear just because we think their strong appeal to the voters is a bad thing. It would be wrong if by our conduct we contributed to halting the developments that have led to a break-up of the former monolithic block of communism.[6]

One journalist observed in February 1976 that "many anti-Communist Europeans see a historic opportunity if Moscow loses control of the international Communist movement . . . ."[7] (Obviously, "many Europeans" regard Moscow as being still in control of the movement.)

Another journalist reported:

> . . . In November, the French and Italian [Communist] parties signed a common charter endorsing participation in a pluralistic political system as opposed to the one-party system preserved in the Soviet Union since 1917 . . . .
>
> Mr. Marchais [leader of the Communist Party of France] renewed his call for his party to drop one of the most sacred Marxist-Leninist doctrines, the dictatorship of the proletariat.[8]

These are hopeful signs; but they primarily comprise words. Non-Communist states remain skeptical, waiting for deeds. Wrote Flora Lewis of these movements:

> . . . Almost all non-Communist Europeans share with Washington suspicion of the depth and sincerity of the claims of Western Communists to have cast off the chains of Moscow and to have been converted to political democracy . . . .[9]

Even an editorial in *The New York Times* expressed skepticism:

> . . . Marchais and his comrades are trying to jump on the bandwagon of national Communism which they denounced—in servile subjection to Moscow—for decades . . . .
>
> National Communism, it must be remembered, really surfaced with Stalin's explusion of Yugoslavia from the Cominform in the late nineteen forties. It was the central issue in the Polish mutiny and in the Hungarian revolution against Soviet rule in 1956, as well as in the Soviet-Chinese break in the early nineteen sixties. And it played a key role in the 'Prague spring' of 1968 which ended with the Soviet invasion of Czechoslovakia. In all those historic tests of the Communist movement, the French Communist Party was one of Moscow's most ardent ideological supporters.
>
> It may well be that hunger for power, rather than genuine ideological conversion, is at the root of the French Communist change. Nevertheless, it is some kind of advance when what was formerly one of the most orthodox of the world's Communist parties finds it advisable to present a more flexible exterior and to proclaim greater independence from Moscow. Some day there may even be deeds to demonstrate that the French party really does operate on its own.[10]

Where are the actions that might, over time, contribute to persuading other states that the Communists now desire to substitute cooperation for their well-known goals of subversion and conquest? What are the Soviets, then, doing in Angola, and Portugal, and the Middle East, and Somalia? For that matter, as the Soviets are still heard insisting, for example, that it is only right for the Israelis to abandon Arab territory captured in the 1967 war, what are the Soviets still doing in whole states "captured" during or soon after World War II—Czechoslovakia, Poland, Hungary, East Germany, Bulgaria, Rumania, Latvia, Estonia, and Lithuania? If the Soviet Union is relentlessly determined to support movements of "national liberation" everywhere, how is it that the Soviets pride themselves on supporting "liberation" in Angola and Vietnam but not in Hungary and Czechoslovakia?

Most Americans are quite clear about the threat's still being there, clearly desirous of damaging American interests if it could get away with it; most Americans have confidence that it can be contained by the United States and its Allies so long as they remain alert to prevent greater aggrandizement of Communist power—monolithic or not.

Therefore, on one side, the United States continues to be open, as always, to genuine cooperation with Communist states and all other states. It remains opposed to aggressive maneuvers of Communist states—not because those states are undemocratic, or because they are totalitarian, or even because they are Communist in ideology and system. (The United States has said repeatedly that it would raise no objection to the installation of a Communist regime honestly elected via open, free elections by any full electorate.)

In sum, the primary reasons for US resistance and opposition to propping up dictators of the Communist variety are these:

- Communist regimes are specifically and relentlessly anti-American, in deed as well as word.
- They are not merely individually threatening countries. In many attributes, they are still linked together, combining and multiplying the power of many countries into a "monolithic" accretion of power.

- The Communist movement threatens America not with ideas but with actions.

Thus, the self-chosen guidelines for American dealings with Communist totalitarians are not mere whims. America's stance of resistance and refusal to "prop up" Communist dictators is not an option it selects automatically out of willfulness, or perversity, or ideology, or distorted perception.

THE SOMETIMES PROPPED NON-COMMUNIST TOTALITARIANS

In many particulars, the reprehensible features of internal orientations of Communist totalitarian regimes are replicated in all totalitarian regimes, whether representative of the Right or the Left, whether fascist or Communist or maverick. Such internal regimes are universally though variously deplored, denounced, or despised by democratic and semidemocratic societies, and on occasion by benign authoritarian regimes.

Is there any basis for difference in US responses to totalitarian nations, either in propping up or in nudging down? If so, what is the difference? The critical basis is the difference between internal and external policies, between internal and external activities, and, within the category of external relations, the differences among helpful, neutral, and harmful acts—not merely statements or abstractions, but actions.

In some non-Communist states, the totalitarianism or authoritarianism is not maximal but at some lower or intermediate level of intensity, and applied only in selected fields, ways, or degrees. Their rigidities do not constitute the whole of some systems. We deplore their totalitarian aspects, some of which are total—as in Communist societies—and some of which are not. In general, such nations constitute a category to be distinguished from Communist dictatorships, at least on the following grounds:

- They remain individual, separate states, not linked together in threatening aggregated power.
- Some have considerable power, as single-nation power goes; but the scale of even the most powerful constitutes no real threat to the United States even if the power were directed by anti-American orientations.
- Possibly the greatest difference between Communist totalitarians and other totalitarians is that most of the latter are not anti-American. They may argue with America over particular issues, but neither in word or deed, so far as we can tell, do most of them express or intend harm to the United States. They may be repressive in relation to their own peoples; but, for various reasons, many admire America and like Americans and American ways. Some among them may not like American ways, but do respect American power.
- Some other totalitarian and authoritarian states may not be pro-American, but they are, for various reasons, anti-Communist. To the extent that individual nations can affect such an issue, they have no intention of permitting aggrandizement of the Communist-controlled portion of the world.
- Some totalitarian countries control certain critical resources or geographical features, primarily involving valuable strategic location related to countering certain Communist-world potentialities for damaging America or the West.

Suppose an American looks, for example, at South Africa—what does he see? Well, it depends largely on what he is looking for. Some Americans will see only the censorious characteristic, *apartheid*, and nothing but *apartheid*, and insist that for Americans nothing else matters.

But there are a great many other things about South Africa, favorable characteristics that also matter very much in international strategic equations, such as high literacy; advanced modern civilization; high skills; high standards of performance in economic, military, professional fields; strategic location; physical power; largely Western values; English-speaking; self-support, not dependent on anyone else; not linked in power aggregation with others; achievement of position through sweat, blood, and brains; and similar attributes.

No doubt, a substantial majority of Americans, still in process of eliminating racial discrimination from our own society, would condemn *apartheid*. However, no matter how agonizingly the single factor of *apartheid* looms in current social analyses, it does not and should not constitute the sole basis or the overriding criterion for determining total American relationships with South Africa. It is to be noted, for example, that several black African regimes have come around to the perspective that, despite *apartheid*, they themselves are now willing to do certain kinds of business with South Africa. The US Government has condemned *apartheid* in numerous public statements and official communications to the South African Government, but we maintain full diplomatic relations with that country.

There is also one additional notable and transcendent trait of South Africa that necessarily looms very large in American policy: South Africa has no enmity towards the United States. It happens in this decade that we are not so besieged by foreign admirers that we can afford gratuitously to alienate another nation that wishes us well. C. L. Sulzberger cited a late 1975 informal estimate among American diplomats that in the UN General Assembly at that time there were represented about 35 nations friendly to us, about 35 neutral but rather hostile, and about 70 "sworn adversaries."[11]

Thus, while some general pattern of relationships can be worked out to govern American dealings with non-Communist totalitarians, each nation presents a largely unique but still complex challenge to be sorted out on its own merits, with heavy emphasis on reality and practicality. Particularly difficult cases for American policy involve those countries that fall captive to totalitarian regimes, despite having previously enjoyed democratic traditions, and, perhaps, amicable relations with the United States over extended periods of time.

Incidentally, in relation to supporting certain selected regimes, it should not be difficult to discern that, in special circumstances, support of one dictator may blunt another dictator—or perhaps both of them.

THE DEMOCRATIC NATIONS

US interaction with democratic regimes poses no domestic ideological inhibitions for Americans. However, for those who seem offended by having to deal with anything but democracies, it is unfortunate indeed that so few nations possess valid credentials. On December 17, 1975, US Ambassador Moynihan, addressing the UN General Assembly, noted that "most of the governments represented in the General Assembly do not themselves govern by consent [of their citizens]"; he asserted that there are now "28, possibly 29, functioning representative democracies in the world"—and one of them, Switzerland, is not a member of the United Nations.[12]

Freedom House, at the start of 1976, estimated that of the world's 158 countries and 4.06 billion people:

- 1,823 million people in 65 nations are "Not Free."
- 1,436 million people in 53 nations are "Partially Free."
- 804 million people in 40 nations, mostly in North America and Western Europe, are "Free."[13]

It is sad but true that not a great deal of the world's strategic real estate is currently controlled by democratic states, simply because, among several reasons, there are so few of them. Thus, if one insists that the United States deal only with democracies, our foreign policy cupboard is likely to be nearly bare a good bit of the time.

THE MIXED OTHERS—MOSTLY AUTHORITARIANS

This fourth category of nations is the largest and most varied. Most nations in it are in some stage of authoritarianism. There may well be, for example, some direct correlation between the degree of democracy prevalent in a society and its degree of economic and social progress; but the connection is not readily provable. Many experts do insist that only via strong internal centralized control can developing countries emerge from backwardness and stagnation, and the argument makes much sense. Another expert insists that only two kinds of government are feasible in poor countries, and both are authoritarian; one type seeks to perpetuate inequitable elite advantages, and the other type seeks gradual but genuine social reform.[14]

Practically all Third World countries have small, authoritarian elites, no middle classes, and masses of the poor. Moreover, among the world's poorer nations, both old nations that were never colonies and new nations emerging from former colonial status, few were *ever* in the hands of democratic regimes or developed democratic cultures. Their regimes have invariably been authoritarian; they have never experienced any other.

Barbara Ward is one of those who insist that to operate even basic democracy successfully, large numbers of literate, trained administrators must be available.[15] Probably, many other elements are likewise essential: at least minimal numbers of competent leaders at several levels of participation; articulate leaders and electorate; some moderate level of universal literacy; at least minimally adequate networks of communications; a press encouraged to be, and committed in large part to, society's positive interests and not to ideology or aggrandizement of itself or elites; at least moderate per capita economic prosperity, making modest degrees of diversity profitable; and nation-building, encouraging innovation. But liberty places responsibilities on individuals that people in some stages of different cultures do not want. They may distrust their own ignorance, or fear to question the dicta of their priests, or in other ways fail to enthuse over democratic visions. They may resist change, and prefer stability. Instead of autonomy they may prefer a system of godfathers. Accordingly, even to assist such peoples, one must in many instances do business with dictators.

VARIETIES OF INTERACTIONS AND "PROPPINGS UP"

Nations for centuries have had ambassadors at foreign capitals to express their specific advice or demands. While the types of objectives of relations among states have not changed much (such as alliance, trade, and threat), the range, scale, and means for intervention have increased enormously. Literacy, transportation, communications, political awareness—all are proliferating; so that there are now seemingly endless varieties of ways and means to influence another nation's course.

There are, of course, a host of positive and negative ways short of armed attack, in which support or propping-up may be rendered, or in which coercive measures in the form of intervention, interference, or attempted threat might be brought to bear against another state, its personality, or its political, economic, and cultural elements.

We need a set of more precise terms to identify the various ways in which one nation can project influence into another. Halpern observes:

> It is an illustration of the unstable character of the present international system that there is no agreement on the definition of the two acts most likely to destroy the sovereignty, independence and equality of any participant of the system, or perhaps even the system itself—namely, aggression and intervention. That is not to say that there is no agreement whatever. There is enough agreement to make the system endure; not sufficient agreement to make it stable. . . .
>
> . . . We live, more now than ever, in an interdependent world . . . . A great power intervenes in the domestic realm of other states when it says yes and when it says no; indeed by its sheer existence . . . .[16]

The characters and values of foreign regimes, as noted, vary widely. Some foreign countries have pursued policies that one or more subgroups of Americans have found distasteful on religious, psychological, economic, social, theoretical, or other grounds. America has supported some regimes (and declined to support others) that condoned a host of practices considered controversial or repugnant, including capital punishment, euthanasia, ancestor worship, the killing of bulls, the smiting of seals, castration, sterilization, polygamy, drug usage, child betrothal, wholesale race or class discrimination, and many other practices that some Americans disapprove of. It is important to realize that among the Americans who disapprove are often included American decisionmakers themselves, who had to choose workable policies, and American representatives, who had to negotiate them.

In passing, it may be worth noting, for the benefit of Americans who are quick to denounce any practice of others that they find distasteful, that despite American amenities there exist also a number of widespread practices tolerated in America but repugnant to certain foreign societies, such as hedonism and blatant exploitation of sex; contempt for authority; preeminence in incidence of vandalism, homicide, and other crimes against the person; widespread personal possession of guns; self-glorification; appalling waste, in a world of shrinking resources; commercialization; and irresponsibility of sectors of the media. Would it be conceded by any Americans that foreign disapproval of such characteristics would justify denunciation or attempts by foreigners to intervene in American internal affairs or to exclude the United States from some facet of international relations?

We have difficulty, indeed, in understanding ourselves, in predicting the outcome of complex factors which partly assist but partly obstruct desired outcomes, in predicting our own future, in achieving optimum mixes of policy that satisfy the many strands and interest groups in America. It is difficult to identify what is best for ourselves. How much more difficult it is to select what is best for other societies![17]

Who are we to insist that we know better than they do what is best for them, how they ought to perceive external pressures, where their interests lie, what pace of change they should adopt, and how best to organize their political and economic affairs? How would we know what trade-offs between personal sacrifice and national progress they should prefer? Democracy may not be—indeed apparently is not—suitable for elementary stages of social organization. Perhaps democracy is acceptable as a universal goal; but until different societies reach their respective "critical mass" stages of development, democratic practices may be not only premature but counterproductive.

Ultimately, the primary criterion must be the same one later discussed in relation to recognition of new regimes: effectiveness. Regardless of political cast or the state of internal social justice, does or does not the regime in question have effective capability to govern?

In judging on the basis of its internal practices the desirability of supporting a foreign regime, the United States may be faced with a difficult choice in ambivalent circumstances. The real choice, as so frequently occurs in human affairs, may not lie between a good course and an evil course; that choice poses no insuperable problem. The great dilemmas involve choice among several courses, each of which, dependent upon the perspectives and perceptions of observers, involves different kinds and degrees of "evil."

It has been essential to distinguish between external affairs and internal affairs.

Thus, in international affairs, the principle has long been accepted that, while the external affairs of a nation involve other nations, the internal affairs of a nation are no other nation's concern. President Kennedy underlined both points in the last paragraph of his letter answering Chairman Khrushchev's protest against our Cuban crisis intervention:

> I believe, Mr. Chairman, that you should recognize that free people in all parts of the world do not accept the claim of historical inevitability for Communist revolution. What your government believes is its business; what it does in the world is the world's business.[18]

Rooted in this and related causes, there has existed, historically, a powerful barrier to American intervention in the internal affairs of other nations: the provision of international law prohibiting such interference or intervention. This provision has not deterred Communist organizers and activists, frequently posing (and occasionally acting) as genuine homegrown revolutionaries against repressive local elites. Most local masses have not understood in time that, when they follow Communist cadres, they merely exchange one set of repressive masters for another.

America, supporting the concept of rule of law, has generally respected this provision of international law. This is not to say that the United States has not intervened; for it has done so, particularly in Latin America, in three kinds of situations:

- To restore order, when chaos threatened or arrived in the Western Hemisphere.
- To forestall European intervention or colonialization, when a power vacuum involved some other nation in the Western Hemisphere (thus, rather than exploiting the endangered nation's vulnerability, American policy preserved the nation's sovereignty).
- When invited to intervene by the concerned nation itself.

Almost invariably, and mostly sooner rather than later, American intervention was terminated when order was restored and as viable administration gathered momentum. Of course, American interests were usually involved, though of two kinds. One kind comprised direct American interests; such actions tended to be understood, if not applauded, by pragmatic regimes of all stripes. The other kind comprised certain interests and responsibilities of the United States, as a superpower, for some degree of world order.

One feels that any discussion of interactions, or of up-propping, is incomplete these days without at least mentioning the proliferating means and methods, brought about by technological and social change, for projecting influence from people to people, overpassing governments, and rendering more complex and difficult adherence to the noninterference principle.

A number of significant changes are in progress or in the offing, appearing to presage weakening of distinctions between domestic and foreign policy. To cite one illustration, Senator Henry Jackson and others have applied pressures with some success on American-Soviet negotiations, apparently benefiting the efforts of Jews to be released from the USSR in order to emigrate to Israel. In another example, the US Senate, on February 18, 1976, voted 60-30 to pass the International Security Assistance and Arms Export Control Act of 1976; one provision of the Act would terminate transfers of American-made weapons to nations "judged to have violated the human rights of their citizens."[19]

One is entitled to some unease about this provision. In instances of flagrant cruelty, of well-documented internal repression of such extreme degree as to "stink to high heaven," a foreign nation may well decline to do business with a particular regime involved (and thus intervene via inaction). But extreme conditions tend to simplify policymaking; most problems fall within extremes, along spectra exhibiting many intersections of many complex factors. Which human rights will be involved? What degree of violation is intended to result in prohibition? If we could be sure of two things—the reliability of our data, and the participation of Solomon in judging net truth and virtue in each instance—we might come closer to justifying such "negative intervention," even in violation of international law.

In any event, the former uncertain state of separation of internal and external aspects of issues is being further eroded, by many forces, including such changes as these:

- Instant worldwide communications via satellites, TV, and radio.
- Immediate means of international give and take constantly available at standing and ad hoc international conferences, organizations, and other agencies.
- A great variety of economic interventions and proppings-up are becoming available and more effective, such as interactions on oil allocations, and oil prices.
- The government of one nation can today, in many instances, even appeal over the head of government to the people of another nation. One notes, for example, full-page

advertisements in *The New York Times* and *The Washington Post* of September 24, 1974, headed "The President of Venezuela Responds to the President of the United States." The issue was oil policy. Had the Venezuelan President's real purpose been merely to address the American President, he certainly did not need to buy a page of *The New York Times* to do so.

- It is now feasible for private groups to intervene in other nations, in contradiction to official national policy. Criminals and terrorists have demonstrated that they can intervene and even intimidate some societies and governments into acceding to their perverse wishes. For another example, Prime Minister Harold Wilson of the United Kingdom denounced in December 1975 "misguided Irish-American supporters of the Irish Republican Army";[20] and the Prime Minister of Ireland, in addressing a joint session of Congress in mid-March of 1976, asked that the US Government put a stop to this form of intervention in Irish affairs.

BASIC US INTERESTS

Careful definition becomes imperative in modern times when a charge is leveled, for example, that "the United States is propping up dictators." What US interests are involved, and what means of up-propping are employed?

The primary interest of the United States is exactly the same as every other nation's; it is precisely what Dean Acheson said it was when he was asked: "To survive," he responded, "and, if possible, to prosper."

One may argue–gingerly, for analogies can be tricky–that the hierarchy of interests of a nation can to some extent be perceived to resemble the universal hierarchy of personal interests that Abraham Maslow postulated for individuals. Maslow's five-step hierarchy of interests and motivations agrees with age-old priorities in establishing that self-preservation is the first law of nature. Maslow's basic step has first priority among all steps: the most fundamental interest of man is survival and the means to survival: life, food, warmth, shelter, healing. (To the contrary, moral codes do not give high place to self-interest; but in the practical arenas of living, self-preservation comes first.) As Adam Smith wrote in *The Wealth of Nations* (1776):

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard to their self-interest. We address ourselves not to their humanity, but to their self-love . . . .[21]

In Maslow's terms (endorsed here to the extent that they appear to reflect real life) other considerations and aspects of self-interest come later: security, esteem, prestige, self-actualization. While no analogy is ever completely parallel, one may reasonably draw one obvious analogy between the identical first priorities of individuals and nation-societies: to exist, to survive, to endure. Thus, the security of the nation is the first and foremost of each and every nation's interests. Moral considerations take second place.

William Bundy recently identified three objectives of American foreign policy: the physical security of the United States; the maintenance of an international environment in which the United States can survive and prosper; and, somewhat unique to the United States, the exertion of American temporizing influence, by word, example, or action, upon the more repressive governments in the world.[22]

Accordingly, can there be any quarrel with consensus that, similar to the primary goal of every other nation on earth, the overwhelming objective of, for example, American aid (economic, military, or other) to foreign countries is to preserve American national security and prosperity? This primary objective does not preclude incorporation of other objectives among our "package of objectives" influencing our support of any particular nation or group of nations (e.g., NATO). It does not preclude generosity, humanitarianism, or encouragement to democracy and social justice in appropriate circumstances. The United States has frequently incorporated such values in its agreements. But there should be no confusion about the primary objective. As one writer points out:

> . . . there are those who believe that, in the reality of the power struggle between the United States and its two principal rivals, the U.S.S.R. and China, respect for international law, self-determination, and the like must come second. Such principles will, in Dean Acheson's phrase . . . serve as 'ethical restraint but will yield to higher necessities.'[23]

Needless to say, the outcomes of these dilemmas are not often crystal clear in advance, and favorable outcomes cannot be guaranteed. No one can read the future. Some recipient countries are not sure what they themselves will do. We make mistakes, as do our adversaries. We win some, and we lose a few.

MIT political scientist Lincoln Bloomfield has expostulated:

> The question for the United States is whether it is to be permanently cast as the enemy of all new movements, tendencies, and historical forces . . . . Nothing in the US Constitution says we have to be allies of small-time dictatorships, one-party police states, and unpopular oligarchies, *unless* we are in a war in which our very existence is at stake . . . .[24]

On the other hand, the Constitution does not stand mute about the defense and security of the United States. It contains no requirement to refrain from cooperation—or alliance, if need be—with any state in a position to protect or further American interests, whether or not that state is a democracy or a tyranny, benign or cruel, radical or reactionary, moral or immoral or amoral.

All public officials, elected and appointed—the President, members of Congress, cabinet ministers, civilian and military officials, and many others—commit themselves, by taking a public oath, to defend the Constitution against both external and internal enemies.

Neither the President nor anyone else, elected or appointed, is committed by his oath of office to spread democracy around the world, or to be generous or stingy with America's wealth, or to educate or criticize foreigners about their faults or virtues, or to choose morality (whose morality?) above all other considerations, or to favor foreign nations according to the preferences of powerful pressure groups in America, or to support the Right or the Left anywhere in the world, or to see to it that foreign regimes treat their people the way even most Americans think they should. The sole overriding commitment of public officials is to the security of this nation, "to defend the Constitution against all enemies, foreign and domestic"—a clear and stark priority.

Emphasis on the criterion of self-interest does not connote that the United States believes it has any right to ride roughshod over the interests of any other nation, or that America imagines that it can afford to engage in relations with other states, big or small, without morality, equity, or compassion.

THE AMERICAN STYLE OF INTERACTION

American policy toward any one nation is never conceived in a germfree laboratory or in a vacuum. Any one major American policy must emerge from some resolution among a host of conflicting forces and interests, including critical American interests; peripheral interests; perceived and stated interests of the regime and the people of the other nation involved; interests of allies and clients of the United States and the other nations; interests of other third parties; the interests of world (and possibly regional) order; long-range factors as differentiated from short-range; "the opinion of mankind" in its various manifestations; morality as differently perceived; pressures by interested private groups within the United States; alternative means and methods available, feasible, and preferable; and others.

Two circumstances of interaction are particularly significant: the recognition of new governments, and interactions with Third World countries. It seems to me likely that, in many respects, relations with Third World countries will become the prototypes of relations with most or all foreign countries.

In 1949, Secretary of State Dean Acheson enunciated a set of principles which expressed America's overall commitment to "Waging Peace in the Americas." That cluster expressed as well as any other the basic principles characterizing US foreign policy:

> - Our essential faith in the worth of the individual;
> - the preservation of our way of life without trying to impose it on others;
> - the observance by all governments of ethical standards based on justice and respect for freely accepted international obligations;
> - protection of the legitimate interests of our people and government, together with respect for the legitimate interests of all other peoples and governments;
> - the juridical equality of all the American Republics;
> - nonintervention in the internal or external affairs of any American Republic;
> - the stimulation of private effort as the most important factor in political, economic, and social purposes;
> - freedom of information and the development of free exchanges in all fields;
> - the perfection with the other American countries, of regional and universal arrangements for maintaining international peace; and,
> - the promotion of the economic, social, and political welfare of the people of the American Republics. . . .[25]

In reference to the recognition of new governments, America has been, in general, sympathetic towards genuine revolutionary movements that appeared to be acting in their people's interests (but not with ersatz revolutions instigated by subversive movements directed by revolutionaries trained in other countries in their interests). Henry Stimson, while Secretary of State, insisted to the Council of Foreign Relations in 1931 that since the American Revolution, US policy on recognition of new governments had always emphasized the *de facto* element (meaning recognition of a regime's effective control of the country, acquiescence by the people, and willingness to discharge international obligations), with the *de jure* factor held in abeyance.[26] Dean Acheson, on the same 1931 occasion referred to above, explained traditional American policy:

> . . . Our policy with respect to recognizing new governments in the hemisphere is not inconsistent with our encouragement of democracy. We maintain diplomatic relations with other countries primarily because we are all on the same planet and must do business with each other. We do not establish an embassy or legation in a foreign country to show approval of its government. We do so to have a channel through which to conduct essential government relations and to protect legitimate United States interests.
>
> . . . If and when we do recognize a government under these circumstances, our act of recognition need not be taken to imply approval of it or its policies. It is recognition of a set of facts, nothing more. We may have the gravest reservations as to the manner in which it has come into power. We may deplore its attitude toward civil liberties . . . .[27]

Professor John Gange wrote in 1959:

> The United States has often held the fact of free elections to be a critical test of the freely given support of any people to the government . . . . In the immediate postwar months in 1945, the United States government made frequent references to this matter of free elections in its consideration of extending recognition to some of the new governments of Eastern Europe. . . .
>
> As events progressed and the Communists firmly fastened their control over the governments of Eastern Europe (except Finland) the United States reluctantly gave up its insistence on free elections and recognized most of these new governments. The inevitability of

> recognition—because of the need for official intercourse—was thus illustrated again, as it had been many times before in our history and undoubtedly will be again.[28]

Something of the same inevitability emerged to move the United States toward recognition of the USSR in 1933 and recognition of the People's Republic of China in 1971.

There are three nations that regard themselves as motherlands of revolution: the United States, France, and Russia. Each expends much rhetoric on the point, and each has much to support its claim; but no claim exceeds America's in validity. We might profitably cite here a number of characteristic elements of the American style in dealing with, supporting, propping up, opposing, or assisting all foreign countries over generations:

- The American idea—revolutionary, successful, open—has provided a beacon to mankind for 200 years; millions of people have abandoned almost all other lands to participate in the American dream (it is a matter of chagrin that so many young Americans, rejecting history, appear not to know what an unmatched beacon America has represented to much of the rest of the world over time).
- American sympathies have usually focused on the underdog, the downtrodden, the disadvantaged (yet we have also learned via considerable painful experience of the questionable effects of helping people who appear unwilling to help themselves).
- America has consistently pressed for self-determination of peoples everywhere; during and after World War II, the United States, despite the variable resentment and obloquy of some of its friends, pressed for the end of the colonial age and for the freedom of colonialized peoples.
- As noted, America has frequently been among the first to extend recognition to genuine revolutionary regimes.
- Whenever and wherever disasters have struck other peoples, America has rushed to provide practical help in the form of funds, transport, food, supplies, and medical services to afflicted peoples, from Russia to India to Turkey to the Congo (rarely have reciprocal efforts from foreign nations been contributed on behalf of disadvantaged Americans).
- The United States has solidly and consistently supported efforts to articulate universal human rights and to encourage not only words but also deeds in making such rights meaningful.
- The United States has undertaken no measures towards other nations that encouraged or aided in the repression of their peoples—no reparations after wars; no degradation of enemy peoples; no real or symbolic chains. To describe US performance as "imperialistic" requires distortion and falsehood. Rather than damage others, the United States has poured much of its resources into foreign peoples, even into reconstruction of enemy peoples. The Marshall Plan, which Churchill called "the most unsordid act in history," was offered even to Communist nations for their participation (and refusal by them); but the unique unselfishness of the Marshall Plan was matched in America's Baruch Plan—the offer, while America enjoyed a monopoly of nuclear power, to yield control of nuclear weapons to an international agency (another offer declined by the Soviets). Nor were such offers solitary; to them can be added others, such as Eisenhower's "Open Skies" proposal, and Nixon's suggestion that all coastal nations waive economic interests derivable from the oceans and ocean beds in favor of underdeveloped nations.

Can any honest and informed evaluator summarize American relations with foreign nations by asserting that the United States traditionally "supports dictatorships anywhere and everywhere"?

In sum, the American style of approach to other nations—large, small, rich, or poor—has carried a heavy content of cooperative spirit, humanitarianism, and magnanimity. It has been characterized by aspects that are the antitheses of encouragement of dictators. No other nation, of any persuasion, has contributed more constructively, more cooperatively, more effectively, to the economic and political betterment of foreign peoples, or to their progress toward social justice, than the United States. As then-Ambassador Moynihan challenged the critics recently in the United Nations: "Find its equal!"

Unfortunately, America's image as the real inspiration for genuine revolution toward the achievement of social justice has become clouded, tarnished—partly by events beyond its control, partly by its own actions.

When the United States assumed from the French the burden of the war in Indochina, even though for radically different objectives than the French pursued, the United States involuntarily but inevitably took on, in the eyes of many Asians, something of the mantle of a colonialist power trying to prevent the self-determination of Asian peoples. Such perceptions were untrue and unfair, but to many people, particularly unsophisticated people, the role seemed fairly clear.

The American crusade behind "counterinsurgency" was similarly misleading. We meant to "counter" *Communist* (i.e., really imperialistic) insurgency, not genuine revolutionary movements; but that qualification never became as clear as the "countering" part. The Communists trumpeted "national *liberation*", our slogan trumpeted the "*countering*" of insurgencies. It did not take long for both contrived and natural image-shaping forces to cast America in the role of the world's great *counterrevolutionary* power. Again, this perception was false and distorted; but since when has human perception limited itself to reality, to fairness? And we had ourselves contributed to being misunderstood.

Various aspects of other American policies contributed to strengthening (and others to weakening) the misleading image of America as a status quo power. Manfred Halpern offers a thoughtful recommendation:

> In the realm of intervention, as one insightful member of the Department of State has pointed out, these new rules of the game demand far more skill and prudence than the old. For example, for a great power patently to extend support to any local faction, whether in the government or the opposition, may in this highly nationalist environment turn out to be a Kiss of Death. In a world in which the Soviet bloc has become an alternate source of support and supplies, we may not always be able to afford to let a country which refuses to abide by the conditions of our aid suffer the consequences. But the more moral and more useful course of action has also become clearer: it is no longer enough to pick a strongman and intervene on his behalf. The politics of social change demand intervention in behalf of programs relevant to societies already in rapid transformation.[29]

The argument does appear persuasive, in these times of political and social awakening, that the United States cannot let itself be cast, in the eyes of downtrodden peoples, as the means by which an oppressive regime appears able to continue repression.

Sometimes, applicable policies must be delicately spun, with great tact and sensitivity yet with certain kinds of firmness. Professor Edwin O. Reischauer, former American ambassador to Japan, wrote in 1967: "We should not *sponsor* political, social, or economic change in Asian countries, though we should be responsive to requests. . . ." (italics added.) Reischauer points out that there is too much risk when we take the initiative or when our influence is so preponderant that we appear to assume responsibility for a regime or its practices.[30]

Among proliferating and intensifying challenges to America in the future, the following appears to be one of the most critical: how to see that the image of the United States disseminated around the world is reasonably accurate, reasonably consonant with the real ethos of American approach to foreign peoples, preferring equity and cooperation, tilted toward the side of generosity and humanitarianism—not the image of a guilt-ridden "do-gooder," but of a pragmatic power that emphasizes, in a civilized way and among a number of important objectives, its own self-interests. American interests can be assumed to fare better in relations with other nations that are friendly and cooperative, and if possible, strong.

FIRST THINGS FIRST

Flexibility and multiple accommodation, while never losing appreciation for "first things first," seems to me amply illustrated by Abraham Lincoln's sorting out of priorities, even in reference to such an important issue as slavery. Evidently, Lincoln abhorred slavery, but not, at that time, at the expense of preservation of the Union. It was in 1862 that Lincoln wrote to Horace Greeley:

> If I could save the Union without freeing *any* slave, I would do it; and if I could save it by freeing *all* the slaves, I would do it; and if I could do it by freeing some and leaving others alone, I would also do that.

It is evident from the arguments used by such spokesmen as were cited at the outset of this paper that a school of opinion exists which holds that the United States should enter into joint agreements only with foreign nations which "think like we do." I have no desire to misrepresent or overstate the case; but some critics do wish to restrict America's exchange arrangements to democratic regimes like ours. Others do not insist that the regimes we do business with be democratic—only that they not be repressive. Others emphasize some desired orthodoxy in a single aspect, such as economic, or racial, or religious conditions. Such proponents hold that the overriding criterion as to whether or not the United States should deal with the foreign regime should be the nature of the regime. Some would not even "recognize" certain regimes of which they disapprove.

Among others, Harold Lasswell and Daniel Lerner have cited the need to correct this "pathetic fallacy" that assumes, "in politics as in all creative arts, that the object of one's attention is necessarily also the object of one's affection. In political science, as in all science, the case is usually the reverse . . . ."[31] We shall doubtless continue to find it prudent, in our own interest, in appropriate circumstances, to prop up or otherwise enter into mutually beneficial arrangements, whether or not the regimes in question are dictators or democrats. As former Secretaries Stimson and Acheson made clear, recognition and the making of suitable arrangements do not necessarily convey approval. One recalls the comment of Winston Churchill in the House of Lords, March 7, 1950:

> One has to recognize a lot of things and people in this world of sin and woe that one does not like. The reason for having diplomatic relations is not to confer a compliment but to secure a convenience.[32]

Or even more simply, as William Miller has expressed it, we may or may not like them; but we deal with them "not because we like them, but because they are there."[33]

Two criteria remain paramount: Will the proposed commitment be likely to benefit or to injure American interests? Will the proposed commitment be likely to enhance or to disturb world stability?

However, the immediate contexts in which criteria and principles manifest themselves are steadily changing. None are immune, though paces of change vary from glacial to frantic. Even internationally, the imperatives in favor of the rule of law promise continuing support at some substantial level for the principle of noninterference by one people in the affairs of another.

On the other hand, it will not serve American interests to exhibit abiding zeal in measuring out support to the world's worst regimes. Most indicators point to the probable lowering of impediments to social progress. Perhaps, in a number of instances, one of the interactions most likely to slow down desirable gains will be the injection of moral outrage volleyed and thundered gratuitously by foreigners without responsibility for the subsequent success or failure of their exhortations.

Whatever principles and criteria appear suitable in the future, we will need, as always, less heat and more light—more careful, informed assessment, not of quirks, whims, biases, or sentimental impressions, but of hard data, as nearly impeccable as we can obtain.

To assert that the United States "props up dictators"—intending by the assertion to place a slur upon the United States as deliberately choosing to be indifferent to injustice or insensitive to oppression or enthusiastic about human misery—is not only false and absurd; it is perverse.

In sum, wherever America supports some dictator, it is never *because* he is a dictator. America also opposes other dictators. America also supports some democrats and in-betweens and rejects others. Whatever our policy turns out to be toward one country or another, the bedrock principle involved is the same in every case: American interest.

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Human Rights Abroad—Reality or Illusion for U.S. Policy?*

President Jimmy Carter has proclaimed human rights "a fundamental tenet of our foreign policy." Abroad, this new emphasis pleases some leaders, worries others and offends still others—notably in the Kremlin. At home, it is welcomed as reflecting this nation's heritage of freedom and our desire that America should regain its position as a moral force in the world. But can we harmonize these noble principles with our other foreign policy goals? Can we advance individual freedom abroad without endangering peace and orderly progress? What means should we use, and how soon can we expect results?

"Our commitment to human rights must be absolute . . . Because we are free we can never be indifferent to the fate of freedom elsewhere. Our moral sense dictates a clearcut preference for those societies which share with us an abiding respect for individual human rights. We do not seek to intimidate, but it is clear that a world which others can dominate with impunity would be inhospitable to decency and a threat to the well-being of all people. . . ."—From President Carter's Inaugural Address, January 20, 1977.

During his first months in office, President Carter made it clear, by word and deed, that he ranked human rights high on his list of foreign policy priorities. Only 16 days after his inauguration the President wrote the Soviet physicist and leading dissident, Andrei D. Sakharov, a personal letter which the U.S. Embassy in Moscow hand-delivered. The Soviets protested U.S. meddling in their domestic affairs. On March 1 the President and Vice President received the exiled Soviet human rights activist—Vladimir Bukovsky—at the White House. Again the Soviets were outraged: they considered Bukovsky a "criminal."

The Carter Administration sought to reassure Moscow that it was not our intention to be "strident or polemical." "We will not comment on each and every issue, but we will from time to time comment when we see a threat to human rights, when we believe it constructive to do so." We were not picking on the Soviet Union, we added. The U.S. underscored the point by suspending security assistance to three non-Communist human rights violators—Argentina, Uruguay and Ethiopia.

Despite our reassurances, U.S.-Soviet relations in the following months cooled perceptibly. At the end of March 1977 the Soviet Union rejected two U.S. proposals for concluding an arms pact. That appeared to kill any prospects of a strategic arms limitation agreement in 1977. It also gave rise to some second thoughts about the priority given to human rights.

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UNANSWERED QUESTIONS

Domestically, opinion polls indicate, the President's efforts to regain the country's moral leadership have struck a responsive chord. Speaking out as a nation on behalf of human rights because it is *morally* right appears to have dispelled some of the cynicism and disillusion that were legacies of Watergate and Vietnam. Morality aside, is the U.S. human rights posture sound foreign policy? Will our commitment to human rights enhance our stature as a world power or damage other vital goals? Can we be outspoken in condemning human rights violations in the Soviet Union but not in China, in Argentina but not in Iran, in Ethiopia but not in Zaire, without appearing hypocritical? If the U.S. is not evenhanded and consistent in upholding human rights, does it risk creating a back lash at home and abroad? As the Carter Administration quickly discovered, only one thing is certain: human rights is a complex and controversial issue.

In the future how much weight, if any should the U.S. give to human rights in formulating foreign policy? Should we apply a single standard to all—to the developing nations and older industrialized countries? to Communist and non-Communist countries? to allies, neutrals and potential adversaries?

How can the U.S. most effectively promote respect for human rights in the world? By example? By discreet diplomatic protests when rights are trampled upon? By publicly denouncing violations? By punishing violators, cutting off economic aid, military support and trade concessions? Do we have a right to impose our standards on others, to act as a moral policeman to the world? Do you have an obligation to do so? Are we wise to do so where military allowances may conflict with human rights aims? Are there any universally accepted fundamentally shared standards of human rights and fundamental freedoms?

From Cave to International Covenant

Freedom is the absence of force and the ability to do what one wishes—to eat and to work, to vote and to worship, to travel and to speak one's mind, to receive a fair and speedy trial. Freedom, writes Herbert J. Muller, author of *The Uses of the Past*, is "the condition of being able to choose and to carry out purposes."

The history of freedom begins with man's using his distinctive powers of the mind to meddle with the natural environment. By constructing irrigation and drainage systems, building cities, inventing writing and increasing his power over the environment, he also gained more effective freedom.

The first recorded use of a word meaning freedom goes back to the 24th century B.C., when the Sumerian king Urukagina of Lagash, the first known social reformer, put a stop to the abuse of his citizen-subjects by running the tax collectors out of town and curbing the excesses of the high priest.

Urukagina was well ahead of his time. Centuries passed before all-powerful rulers gave more than fleeting attention to their subjects' welfare. And then it was in the West—in the Greek city-states and in Rome—that the concept of civil and political rights of the individual took root. The legacy of ancient Athens was democracy—albeit a minority democracy of slave-owning citizens. And the legacy of the Roman republic was the concept of citizens' rights under law.

The Greco-Roman models of democratic rights and individual freedoms were not lost, but many centuries were to pass before they were emulated by a handful of Western countries. In England the absolute power of the king was first curbed by the Magna Carta in 1215. As late as 1679, when the Habeas Corpus Act was signed, Englishmen were still subject to arbitrary arrest and indefinite imprisonment without trial. The original English Bill of Rights was only passed in 1689.

UNALIENABLE RIGHTS

At roughly the same time that the civil and political liberties of the individual were beginning to win recognition in the West, the concept of freedom itself was expanding. Out of the religious turmoil of the 16th century known as the Protestant Reformation emerged acceptance of the idea that the individual has freedom of conscience and the right of dissent. Such rights are not conferred by society or governments, asserted the 17th-century English philosopher John Locke and the 18th-century French philosopher Jean-Jacques Rousseau; they are rights with which the individual is born.

That revolutionary doctrine of natural rights is embodied in France's Declaration of the Rights of Man and of the Citizen (1789) and in our own Declaration of Independence: "We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights . . ."

The U.S. Constitution separates and limits the government's power over the individual; the Bill of Rights (the first ten amendments to the Constitution) spells out his civil and political rights, including freedom of speech, press, religion, the right of assembly and the right to a speedy and public trial secured by an independent judiciary.

In the 19th century, a quite different and much older concept of freedom reappeared, especially in Europe. This was the right of whole peoples, united by language or culture or national identity, to be free from oppression by an alien ruler—the *collective* right of self-determination. The appeals of these nations and minorities for the right of self-determination hit a responsive chord because nationalism was by then a major political force. Some sympathetic governments even intervened militarily on behalf of such rebellious peoples, justifying their intervention on humanitarian grounds. In the 1820's, Greece, with outside help, fought for independence from the Ottoman Empire. Latin American republics freed themselves from the Spanish and Portuguese colonial yoke. The Balkan states of Rumania, Serbia and Montenegro rebelled and in 1899 gained their independence from Turkey. And the U.S. intervened to help Cuba free itself from Spanish misrule in 1898.

At the end of World War I the right of peoples to self-determination—one of President Woodrow Wilson's Fourteen Points—was widely accepted. But deciding what constitutes a "people" was not so easy. The victorious powers redrew Europe's boundaries and carved out a half-dozen new states—Estonia, Latvia, Lithuania and Poland from the old Russian empire; Czechoslovakia and Yugoslavia from what had been the greatest national hodgepodge of Europe, Austria-

Hungary. The latter contained several nationalities, and rather than set up each nationality as independent, the League of Nations Covenant extended its protection to some 30 million national and linguistic minorities *within* the multinational states of Central and Eastern Europe. Meanwhile, far from European shores, the covenant also started another wave of self-determination by parceling out Germany's former colonies as "mandates" to the several Allied powers—and obligating the mandatories to *respect the rights* of the peoples under their tutelage.

With that one exception, the covenant contained no reference to human rights. Individual civil and political rights, not to mention economic and social rights, were not considered an appropriate concern of an international body; they were strictly the responsibility of governments.

It took a second world war to convince the international community that violations of individual human rights were a threat to the peace and that protection of those rights was a collective responsibility. The barbarous tyranny of Nazism and the extermination of 6 million Jews—and unnumbered people of other allegedly "inferior races"—demonstrated that deprivations of human rights go hand in hand with aggression.

At the same time, a further step was taken: the concept of human rights was extended to include not only civil and political rights but also economic rights. In listing their peace aims in the Atlantic Charter of August 1941, President Roosevelt and British Prime Minister Winston Churchill called for international collaboration to secure "for all, improved labor standards, economic advancement and social security . . ."—as well as the right of people to choose their own forms of government.

On the eve of victory in 1945, 50 nations with diverse political and economic systems met as United Nations founders in San Francisco. In ratifying the UN Charter, the members affirmed their faith in the dignity and worth of the individual and undertook an unprecedentedly broad obligation to promote universal respect for and observance of human rights and fundamental freedoms. Each nation pledged itself to work separately and in cooperation with the UN to implement its obligation.

The Charter does not define human rights. That task was left to future conferences. On December 10, 1948, the UN General Assembly adopted the Universal Declaration of Human Rights without a dissenting vote. (The Soviet bloc, Saudi Arabia and South Africa abstained.) The declaration in time has come to be more than a mere statement of basic principles. In the legislative work of the UN it has become a standard of reference to which every new text in human rights must conform. For new governments, it has served as a model for their constitutions. And, according to some experts, the declaration is now part of the customary law of nations and therefore binding on all states, whether they voted for it or not.

Not all lawyers agree on the last point. But there are international human rights treaties—called conventions or covenants—incorporating direct references to the declaration that are binding on their signatories, in law if not in actual practice. Principal among them are the two covenants which were conceived as the first international bill of human rights: the International Covenant on Civil and Political Rights, with its Optional Protocol (nations which sign the protocol accept the right of petition by individuals as well as by governments) and the International Covenant on Economics, Social and Cultural Rights. The covenants were adopted by the General Assembly in 1966 and entered into force in 1976. The President signed them in October, but they have not been ratified. The Soviet Union is among the more than 40 signatories.

Two regional organizations have made significant contributions toward international observance of human rights. One is the Organization of American States (OAS), which adopted the American Declaration of the Rights and Duties of Man in Bogotá, Colombia, nine months before the UN approved the Universal Declaration. The other is the Council of Europe, a pioneer in developing machinery for the collective enforcement of human rights. Under the European Convention for the Protection of Human Rights and Fundamental Freedoms, adopted in 1950, an individual, group of individuals or nation whose rights have been violated can file a complaint with the European Commission of Human Rights. If a settlement isn't reached, the aggrieved party has recourse to the European Court of Human Rights or the Council of Europe's Committee of Ministers. All 19 Western European members of the council have ratified the convention. Indeed, respect for human rights is a condition for membership—and the condition is maintained. Portugal was not admitted until 1976, after democracy was established, and Spain is not yet a member.

The European commission served as model for the OAS Inter-American Commission on Human Rights, created in 1960. Its members are usually distinguished jurists of independent stature. The commission, which acts as a monitor of human rights in the Americas, has investigated violations in Cuba, Bolivia, Brazil, Chile, Haiti and elsewhere. In the last few years its effectiveness has been hurt by the refusal of some countries to permit on-the-spot investigations and pressures to curtail its activities.

HELSINKI

A new chapter in the unfolding history of human rights was started in Helsinki, Finland, on August 1, 1975 when the U.S., Canada, the Soviet Union and 32 nations of Western and Eastern Europe signed the Final Act of the Conference on Security and Cooperation in Europe. In exchange for accepting as permanent the post-World War II map of Europe—Moscow's basic aim in originating the conference—the Western conferees obtained inclusion of a section known informally as Basket 3. The section calls for the freer movement of people, ideas and information between East and West. The act is a political statement of intent—not a treaty or legally binding agreement—but its modest undertakings on human rights have already had a powerful psychological influence in all the signatory countries.

It was left for a follow-up conference in 1977 to measure the extent of each country's implementation of the Helsinki act's provisions. The U.S., in a mid-1977 report to the follow-up conference, charged that the Soviet Union and its allies "have advanced arguments and interpretations which seek to blunt the purpose of Basket 3 through token and selective implementation of its provisions." The August 1977 report of a joint congressional commission was even more critical. It declared that the Soviet Union had "shown systematic disregard for civil and political rights." A follow-up meeting convened in October in Belgrade, Yugoslavia and was still meeting behind closed doors as Great Decisions went to press. Like the act itself, resolutions adopted by the meeting will not be binding. But binding or not, Helsinki and Belgrade have focused attention on what the Kremlin insists are domestic matters—the widespread violations of human rights in its own country and in Eastern Europe.

FREEDOM UNDER FIRE: A WORLD TOUR

International concern for human rights has come a long way in a short time. Thirty-odd years ago there were no internationally agreed standards of human rights or government behavior with respect to those rights; no international forum for discussing the subject; no procedures for investigating complaints; no continuing studies of particular rights and their violation. Today all those things exist—yet human rights advocates believe most of the hard part—implementation—lies ahead. Many would agree with Ambassador William W. Scranton, who told the UN in 1976, "Today the only universality that one can honestly associate with the Universal Declaration of Human Rights is universal lip service."

Few nations measure up to the declaration's "common standard of achievement." Moreover, there are basic disagreements—over the relative importance of the rights of the individual vs. the right of society; over economic and social rights vs. civil and political rights. In the West, the individual comes first and the state helps assure the liberty that is his birthright. In Communist and other one-party states, the individual is subordinate to the state and is permitted only such rights as the state sees fit to grant.

Many developing countries' leaders insist that for them political rights are frills. What use, they ask, is freedom of speech to a starving man? Civil libertarians turn the question around: How can the starving man hope to improve his lot unless he can change the government that permits him to continue starving?

Measured by the standards of the universal declaration and the international convenants, how far has the world advanced in securing individual liberty? How many countries recognize, let alone achieve in practice, an irreducible minimum of fundamental freedoms—

> Freedom from governmental violation of the integrity of the person (that is, torture; cruel; inhuman or degrading treatment or punishment; arbitrary arrest or imprisonment; denial of fair public trial)?
>
> The right to such vital necessities as food, shelter, health care and education?
>
> Civil and political liberties: freedom of speech, of the press, of assembly; freedom of religion; freedom of movement both within and outside one's own country; freedom to take part in government and to oppose official policies? What is the status of human rights in the world today?

THE U.S.S.R. AND EASTERN EUROPE

Under communism, the state guarantees such economic and social rights as employment, education, security and medical care, but civil and political rights exist primarily on paper. The Communist party—the sole legal party—has a monopoly of power and rigidly circumscribes individual liberties, including freedom of thought, association and the right to emigrate. This has been true in the Soviet Union since 1917 and in Eastern Europe since just after World War II, when under Soviet pressure one country after another succumbed to Communist rule and Moscow's domination.

Moscow's repression of dissidents and "refuseniks"—people who have sought and been denied permission to emigrate—is the severest in many years. But despite the repression there emerged after the August 1975 Helsinki meeting a small, organized movement demanding human rights. Since mid-1976—before the current U.S. rights campaign got under way—Soviet intellectuals have risked police and judicial harassment, imprisonment, confinement in psychiatric wards and forced exile to monitor their government's compliance with the Basket 3 provisions of the Helsinki accord. By last June, when the preparatory meeting for the Belgrade conference convened, three founders of the Moscow group and at least six members of three provincial groups were in jail. Three more were arrested in August. One U.S. journalist who had known some of the dissidents was expelled from the Soviet Union. A second reporter was arrested for questioning but was released after the U.S. expressed the "strongest objections."

In Eastern Europe the two main centers of human rights activism are Czechoslovakia and Poland. In *Czechoslovakia* in 1976–77 open dissent was greater than at any time since the "Prague Spring" of 1968—a period of liberalization which ended with the Soviet-led Warsaw pact invasion. Over 700 writers, scholars, scientists and former government offiicals signed a human rights manifesto, Charter 77, which called on the government to implement the rights guaranteed in the two international covenants on civil and political rights and on economic, social and cultural rights, which are part of Czech law and were confirmed at Helsinki. Charter 77 cited specifically the rights of free expression (including the right to work in one's profession even if one's views differ from the official ones), freedom from fear, religious freedom and a whole range of civil rights. The reaction of the Gustav Husak government, one of the most orthodox and loyal Soviet allies, was predictable: signers had their telephones disconnected or lost their drivers' licenses. Eighty lost their jobs. Some were arrested and imprisoned.

In comparison to Czechoslovakia, *Poland* permits a relatively high degree of freedom: nationals can travel abroad, even emigrate if they so desire, and Western radio and television are fairly accessible. The government has been severely shaken three times—in 1956, 1970 and most recently in 1976—by workers protesting food shortages and food price increases. In 1976, as it had before, the government granted some concessions. It "stuffed their mouths with sausage so they'll shut up," quipped one Polish poet. But it also jailed over 50 rioters. A Workers' Defense Committee was organized in 1976 to help the victims, and last year a broader-based human rights movement was started by a small group of intellectuals. They have the support of Stefan Cardinal Wyszynski and the Roman Catholic Church, a major force in Poland. Several dissidents were arrested last summer, but the movement reportedly continues to grow.

In *East Germany*, which has the reputation of being Eastern Europe's most rigid regime, there is no organized opposition comparable to Poland's and Czechoslovakia's. The ratio of Soviet troops to East Germans is 1:48—a mark of the East German government's fear of an explosive upheaval. In 1975 and again in 1976 about 10,000 persons—almost all family hardship cases—were permitted to emigrate. Encouraged by Helsinki, another 100,000 to 200,000 had applied by 1976. The act of applying to emigrate is now a punishable offense.

CHINA

The almost 1 billion people of China enjoy no Western political or civil rights under Communist theory and practice. Dissent is punished by criticism and confession, transfer to peasant jobs in far provinces, imprisonment and forced labor but rarely by torture, according to Professor Francis B. Randall of Sarah Lawrence College. However, the government has alternated between harsher and milder policies. Since 1966, many provinces have been quasi-independent and some, notably Kwangtung and Honan, have usually been milder in their treatment of dissent than Peking. In 1976–77 the moderates, after the death of Chairman Mao Tse-tung, overthrew the leftists, and a few hundred thousand of the chief violators of human rights were now themselves purged. Professor Randall notes that the Chinese exercise a limited *de facto* right to present individual complaints and political comments on signed wall posters.

THE 'THIRD WORLD'

For most colonial peoples the most prized freedom is national self-determination and independence rather than individual freedom. Most of the former colonies are now independent, but many governments are still struggling to establish their authority and unify their countries. Where state power is at stake, the government often discriminates against minority groups and ignores civil liberties.

Many third-world leaders maintain that what their people want most is food and work, and only strong leadership and stern discipline can provide those necessities. ". . . Without carrying out the basic needs of human beings, all the other rights are mere illusion," according to Fereydoun-Hoveyda, Iran's representative at the UN.

Other leaders disagree. Coercive dictatorships, they claim, are not only cruel but inefficient and wasteful. They squander talents and skills daily by detaining without trial, exiling or executing people who belong to the wrong ethnic group or political faction.

ASIA

Most postindependence governments modeled on Western democracies in Asia and elsewhere have long since been replaced by single-party systems or by military rule. The major—but not the only—exception is *India*, which proved at the polls in March 1977 that it was still the world's largest democracy. Voters overwhelmingly rejected a two-year drift toward totalitarianism by voting Prime Minister Indira Gandhi's Congress party out of office. Explained an Indian farmer in turban and dusty dhoti, "Just because a man is poor and maybe cannot read does not mean that he cares nothing for his human rights. The Congress government has tried to shut my mouth and therefore the Congress loses my vote."

Among the major human rights casualties in Asia are religious or ethnic minorities who become refugees. In 1947, Indian independence and the creation of *Pakistan* brought about the biggest single movement of population in history: 12 million refugees, as Hindus fled from Pakistan and Muslims from India. A half million or more died in communal violence. During the war that created *Bangladesh* (formerly East Pakistan) in 1971, 10 million Bengalis fled to India. After attaining independence in 1948, *Sri Lanka* (then called Ceylon) expelled a large part of its Tamil-speaking Hindu minority, and *Burma* forced out hundreds of thousands of Indians.

The single worst offender against human rights in Asia today is *Democratic Kampuchea*, formerly Cambodia. According to the State Department, the Cambodian Communists who seized power in April 1975 have "flagrantly and systematically violated the most basic human rights." The Department estimates that up to 1.2 million of the country's 8 million may have died; 2.5 million have been displaced. Others cite *North Korea* as an extreme example of tyranny in action, but because of the almost total suppression of information relating to human rights in that country specifics are hard to come by. *South Korea's* President Park Chung Hee, who seized power from the civilian government in 1961, has harassed, arrested and imposed harsh prison sentences on critics and enemies. Last summer he released 14 men, a small fraction of the 260 or more political prisoners. The once-democratic *Philippines* has been under martial law since 1972.

BLACK AFRICA

Africa, like Southeast Asia, is a continent of refugees. Often the flight is that of ethnic groups oppressed by others who dominate the postindependence governments of new nations. Most of the new nations' frontiers were drawn a century ago by European powers in total disregard of ethnic or linguistic lines. By last count the UN High Commissioner for Refugees was responsible for 1.2 million Africans. Half or more had fled white-dominated southern Africa, chiefly the former Portuguese colonies. Another half million, mostly members of ill-treated minorities, found conditions so intolerable in their own countries that they moved away. In the course of Sékou Touré's long rule in *Guinea*, terrorism has become commonplace and an estimated 1 million people have left. The leaders of *Ghana* and *Zaire* have been ruthless in expelling Africans of the "wrong" tribal background.

The victims of such clashes are not always in the minority. *Uganda*, site of most widely publicized mass killings in Africa, has been ruled since 1971 by the iron fist of General Idi Amin Dada, a member of a small tribe. Most of his victims have been members of more numerous tribes. Estimates of the number of Ugandans, both civilian and military, who have been arrested, tortured, or killed by Amin's agent—or have simply "disappeared"—range from 50,000 to 300,000 in a population of 12 million. (Another 50,000 noncitizen Asians were expelled in 1972.) Similarly, the Tutsi-dominated government of *Burundi* (population 3.9 million) is reported to have killed as many as 100,000 men, women and children of the Hutu majority in 1972. Another 80,000 fled the country. In tiny *Equatorial Guinea*, slavery has been reportedly introduced. Thousands were killed last year and a fourth of the population driven into exile by the government of President Macias Nguema.

Such full-fledged reigns of terror in Africa have been mercifully few. When they have occurred, expressions of official outrage have been confined largely to non-Africans. African governments maintain that their silence is in keeping with the principle of noninterference in the internal affairs of others. Practically speaking, a majority of black African nations are haunted by the fear of national dissolution. Their governments' authority is fragile, the divisive pulls are powerful, and their greatest protection against collapse is the assurance that other African countries will not openly intervene.

SOUTHERN AFRICA

One issue on which not only black Africans but virtually the entire international community is united is racism in southern Africa (see Great Decisions '77, Topic 2). In South Africa a white minority government, representing 4.16 million whites, has imposed a policy of *apartheid* (the separation of races in all spheres) on 18 million blacks and 2 million "Coloreds" (people of mixed ancestry). The government's official policy, already partly carried out, is to relocate the entire black majority in nine "independent" homelands, or bantustans, occupying 13 percent of the territory. Meanwhile millions of blacks, employed in the industrial areas, live in segregated townships such as Johannesburg's strife-torn Soweto.

South Africa also stands condemned by the UN for continued control of neighboring *South-West Africa*, or *Namibia*, a former League of Nations mandate dominated by its own white minority. After a decade of UN pressure and sporadic violence along the northern (Angolan) border, South Africa has agreed to grant the territory independence—but on terms unacceptable to the UN.

In embattled *Rhodesia* (*Zimbabwe* is its African name), 268,000 whites dominate 6.3 million blacks and allow them only minority representation in the central government. It was to maintain white dominance that the Rhodesian Front, led by Prime Minister Ian D. Smith, issued its "unilateral declaration of independence" from British rule in 1965. In 1977, despite strenuous diplomatic attempts by the U.S. and Britain, the outlook for a peaceful transfer of power to the black majority was clouded. Smith insisted on constitutional guarantees for the white minority and a qualified franchise; the black leadership was divided except on one point—majority rule through universal suffrage.

LATIN AMERICA

In the Latin American republics, progress toward modernization has been marked by a frequent abandonment of parliamentary government in favor of arbitrary rule by military strongmen.

In recent years the systematic violation of human rights in *Chile* has been a special target of international condemnation, joined in by Western and Communist countries alike and heavily documented by international organizations and private groups. Since September 1973, when the democratically elected, embattled Marxist government of Salvador Allende Gossens was overthrown by a military junta, a state of siege has been in effect and all constitutional guarantees have been suspended. The government of President Augusto Pinochet Ugarte has institutionalized the practice of torture, arbitrary arrest, detention and exile. Some 500 persons have "disappeared."

Last August, in what was seen as a gesture toward the Carter Administration's human rights policy, the government announced that it was disbanding the notorious secret police agency charged with killings and torture. Whether the agency's functions have ceased or have merely been transferred to a newly created agency with similar powers is not yet clear. The announcement coincided with the visit of U.S. officials to Santiago, the nation's capital.

Although less publicized, setbacks to civil and political rights have been frequent in other parts of Latin America in recent years. The smaller and poorer oligarchical states, such as *Nicaragua*, *Paraguay* and *Haiti* (the poorest country in the Western Hemisphere), have traditionally allowed little freedom, and periods of general violence are frequent—as in *Guatemala*, where about 15,000 are believed to have been killed by political terrorists in the last six years. But several of the more-industrialized countries, whose citizens in the past have periodically enjoyed civil and political liberties, have also recently suffered widespread human rights violations. In *Mexico* (see Topic 7), there has been only occasional civil strife in recent years. Not so, however, in *Argentina*, where a junta overthrew the elected government of President Isabel Martinez de Peron in 1976. In its less than three years in office, the Peronist government had been unable to prevent over 2,000 political assassinations, the majority by right-wing extremists. In the last two years kidnapping, torture and summary executions by armed men operating independently or under orders, government security forces and left- and right-wing guerrillas have become a feature of daily life. Amnesty International, a private organization dedicated to freeing prisoners of conscience, reported in March 1977 that since the coup "between 2,000 and 5,000 people disappeared without a trace"—most of them leftist militants but also suspected subversives, priests, intellectuals, political refugees; another 5,000 to 6,000 were being held as political prisoners. The government announced last October that it was very close to final victory over left-wing terrorism.

In *Brazil*, accusations of torture, the disappearance of individuals and the death of detainees at the hands of the military continue to be leveled against President Ernesto Geisel, the fourth army general to govern since 1964. Amnesty International estimated in 1976 that there were 800 political prisoners under detention in Brazil. Incidents of torture involving political suspects, however, are said to have declined sharply.

The human rights situation in *Uruguay*—a country which for three-quarters of a century was an example of constitutional stability and democracy—was comparable in 1977 in all respects to that in Chile, according to the International Commission of Jurists, a nongovernmental group. Since the dissolution of Congress in 1973 there has been a severe restriction on any form of organized opposition to the regime. Uruguay now has the greatest number of political prisoners (an estimated 5,000) relative to its population (2.8 million) of any country in Latin America.

In *Cuba*, Premier Fidel Castro admits to holding 2,000 to 3,000 political prisoners. Some estimates place the number as high as 20,000 in a population of 9.6 million—a ratio that would make Cuba one of the world's leading police states.

MIDDLE EAST

In the Middle East the two countries most frequently cited for gross violations of human rights are Iran and Iraq. The International League for Human Rights, in a protest sent to Shah Mohammed Reza Pahlavi last June, cited evidence of mass arrests and torture of Iranians as well as harassment of Iranian citizens living abroad. The State Department, on the other hand, said there had been "very encouraging developments" in human rights since the beginning of the year in Iran, one of this country's largest customers for advanced military hardware. In Iraq, according to Amnesty International, the "incidence of reported executions is probably the highest in the Middle East." Violations are also alleged by Amnesty in a number of other Middle Eastern countries, including those crucial to a Mideast peace settlement (see Topic 3): Israel is accused of holding prisoners for "security offenses" and the Arab states, of holding prisoners belonging to banned political groups.

THE NORTH ATLANTIC

Violations of human rights are by no means limited to developing countries or Communist countries, to particular continents or peoples. In fact no example from Asia, Africa or Latin America can equal the monumental disregard for human rights during the 1930's and 1940's in those parts of Europe overrun by Hitler and his allies.

Yet it is Western Europe, together with its political heirs across the North Atlantic, that boasts the longest tradition of individual and political liberty. In the 1970's, to a degree perhaps never before equaled, non-Communist Europe has become solidly democratic as the exceptions that blotted its record came around one by one. *Portugal* ousted its civilian dictatorship in 1974 and in 1975 held its first free election in more than 40 years. Last year, after the death of dictator Francisco Franco, *Spaniards* voted in their first free election in 41 years. And in 1974 Greece, the classic cradle of democracy—from whose language the very word is derived—deposed the latest of a series of military dictatorships that have afflicted it in modern times and restored parliamentary government.

Other developed countries whose citizens enjoy a broad range of civil, political and economic liberties are Japan (see Topic 6), Israel, Australia, New Zealand, Canada—and the oldest constitutional republic on earth, the U.S. None, however is totally without fault. The U.S. over the past decade has made great strides, particularly in combating discrimination on the grounds of race, sex and national origin, but—as President Carter acknowledged to the UN General Assembly in March 1977—"our own ideals in the area of human rights have not always been attained." Despite the progress, there are wide areas of injustice—not because the principles are wrong but because they are not universally observed.

U.S. POLICY: POWER AND PRINCIPLES

American foreign policy over the years has alternated between what an editorial writer characterized as "weekday diplomacy," or the language of power, and "Sunday diplomacy," or the radiation of values. Weekday diplomacy is essential to survival, the editorial asserted. Sunday diplomacy is a historical necessity to nurture a consensus at home. Frequently U.S. policy has been a blend of the two.

The containment policy of the late 1940's, for example, started out as a hard-nosed, practical response to the expansion of Soviet power in Eastern Europe. It was specifically designed to reassure a politically insecure Western Europe. But by the early 1950's the crusade against communism had become an exercise in Sunday diplomacy seven days a week—an effort to radiate American values not only in Europe but worldwide. In the war between freedom and communism, President Eisenhower's Secretary of State John Foster Dulles declared, there can be no neutrals—even though a majority of the world's population considered themselves just that.

There was even talk of rolling back communism and liberating Eastern Europe. But when Soviet tanks rumbled into Hungary in 1956 and gunned down freedom fighters, the U.S. calculated the risks and kept its powder dry.

John F. Kennedy set a high moral tone for his Administration's foreign policy when he declared that this country would "support any friend or oppose any foe in order to assure the survival and success of liberty." Within less than a decade that policy formulation had lost much of its appeal.

As if responding to this shift in public opinion, the Nixon and Ford Administrations defended our diminishing role in Indochina in terms not of human freedom but of the national interest. The "fundamental moral imperative," according to Henry A. Kissinger, Secretary of State to both Presidents, was to avert nuclear war. That meant restoring a balance of power in Southeast Asia, maintaining the existing balance in Europe and elsewhere, and at the same time seeking détente with the Soviet Union. U.S. commitments abroad, he stated, had to be based on security needs, not on moral judgments. Therefore, he argued, human rights questions should not be linked to foreign policy decisions.

A majority in Congress disagreed with the Kissinger concept. They did not believe the American people would long support a foreign policy which did not clearly reflect the country's ethical values. They opposed subsidizing repressive regimes with U.S. aid and arms. Under the leadership of Representative Donald M. Fraser (D-Minn.), Congress in 1974 voted to cut off military aid (and aid to police forces) for governments engaging in "a consistent pattern of gross violations" of human rights, except in extraordinary circumstances. It passed the Jackson Amendment, linking trade benefits for the Soviet Union to the issue of freer emigration (whereupon Moscow opted for neither). It extended the prohibition on security assistance for human rights violators to include economic and development aid, except where such aid directly benefited needy people. It curtailed the sale of arms, notably to Chile, in 1976 and asked the State Department to prepare reports on the status of human rights in all 82 countries receiving U.S. aid.

The Department of State under Secretary Kissinger resisted these congressional actions. It argued that there were no objective standards by which to measure "consistent patterns of gross violations," and that to attempt to do so by subjective judgment would serve neither our security interests nor the cause of human rights, but would only embarrass our friends and hurt relations with them. Congress insisted, and the State Department released the reports in January and March 1977. The reports confirmed that human rights were being violated in varying degrees by most of the countries.

Congress also insisted that human rights receive greater attention in the Department of State. An Office of Humanitarian Affairs was set up in 1975. Under the Carter Administration it was expanded into a new Office of Human Rights and Humanitarian Affairs, headed by Patricia Derian.

Congress' preoccupation with human rights accurately reflected the concern of many Americans, according to a 1976 preelection poll of community leaders and foreign policy experts by the Public Agenda Foundation. The study revealed a consensus that "regaining our position as a moral force in the world" should be a foreign policy priority. Among the experts, in particular, there was broad support for the proposition that "the U.S. should actively promote democracy abroad, wherever it enjoys local support, using political and economic tools but not military leverage," and that this should be an underlying principle of our foreign policy. A renewed commitment to democratic values, they agreed, "may help to resolve a central dilemma of contemporary foreign policy—developing a foreign policy which both serves the national interest in the traditional sense and reflects the fundamental values of the American people in a positive sense."

Candidate Carter's commitment to human rights had struck a responsive chord among Americans. As President, Mr. Carter stated his conviction that human rights could be "a beacon light that will make our people proud and say we stand for something." In his first year in office, the President pursued his human rights campaign by public pronouncements and symbolic acts, quiet diplomacy and persuasion, pressure and force of example. He spoke out against torture, arbitrary arrest and imprisonment and on behalf of civil and political liberties and the right of people to adequate food, shelter and education.

Concerning human rights in the Soviet Union, the most conspicuous steps were the President's personal letter to Sakharov and his White House encounter with Bukovsky. Less publicized was his decision to increase substantially the transmitting capacity of Radio Free Europe and Radio Liberty, which broadcast to Eastern Europe and the U.S.S.R.

Human rights policy toward non-Communist countries has varied, depending on whether the U.S. considers them of strategic importance. For those that are not, the Administration has used the carrot-and-stick approach. It reduced small military sales credits to three countries—Argentina, Uruguay and Ethiopia—on the grounds they were guilty of gross violations. And it offered financial incentives to others to promote human rights. The Administration asked Congress for a 20 percent increase in foreign economic assistance for fiscal year 1978, and it expanded the program of aid for "new initiatives in human rights."

In the case of countries which violated human rights but where national security considerations were judged to be overriding, the U.S. maintained or even increased the level of aid. South Korea, the Philippines and Indonesia fell into this category. Again on practical—rather than ideological—grounds the Administration successfully blocked a House-approved foreign aid bill that would have barred international financial institutions from using U.S. funds in loans to Vietnam, Cambodia, Laos, Cuba, Angola, Mozambique and Uganda. If Congress passed the House version of the bill, the World Bank warned in advance that it would have to reject all U.S. funds.

The President also took steps to improve this country's own human rights record. The Administration removed all restrictions on the right of U.S. citizens to travel abroad, supported Congress' liberalization of visa requirements for foreign visitors, sought to broaden assistance to political refugees, and successfully lobbied for congressional repeal of the 1972 Byrd Amendment. The amendment permitted U.S. imports of chrome from Rhodesia, a breach of the UN Security Council's binding decision to impose sanctions and thus a violation of our international legal obligations. African states viewed our policy as one of contempt for the struggle for majority rule in Zimbabwe.

President Carter has asked Congress to ratify a number of pending human rights treaties, including the 1969 American Convention of Human Rights, a hemispheric treaty which he signed in June; the International Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights; and the International Convention on the Elimination of all Forms of Racial Discrimination, which the U.S. signed in 1965 but which for 12 years was not forwarded to the Senate. The President also endorsed the controversial genocide convention, which prohibits acts intended "to destroy, in whole or in part, a national, ethnical, racial or religious group." The General Assembly adopted the convention in 1948; it came into force in 1951. U.S. opponents claim that U.S. ratification could subject Americans to extradition and trial in foreign jurisdictions. Supporters—including the American Bar Association which reversed its long-standing opposition in 1976—disagree. They point out that while the convention carries moral weight, adherence to it would not affect the rights of Americans. As Great Decisions went to press, Senate supporters lacked the votes necessary for ratification.

THE RESPONSE ABROAD

Abroad, the Carter human rights policy has had a mixed reception. The sharpest reaction—evidently a surprise to the President—came from the Soviet Union. The deterioration in the East-West political atmosphere last spring and summer, Moscow said, was caused by the U.S. "anti-Soviet propaganda campaigns" and "the attempts at interference in the internal affairs of the U.S.S.R. and other socialist countries under the pretext of 'defense of human rights.'" This, it continued, was the reason for the lack of progress in drafting a new treaty on the limitation of strategic arms. This hint that too much enthusiasm for human rights could threaten SALT itself was the heaviest warning Washington had received on the subject.

The Soviets were not alone in their objections. Argentina, Brazil, El Salvador, Guatemala, Nicaragua and Uruguay were so angered by the new policies that they announced they would refuse further U.S. aid linked to respect for human rights.

Even some Atlantic allies—notably France and Germany—as well as Canada expressed dismay with what they called President Carter's "little cold war." They were concerned that it could provoke a more hostile Soviet position on a whole range of East-West issues and endanger détente. They felt they stood to lose far more than the U.S. if détente failed and Moscow once again sealed off Eastern Europe. Since the signing of the Final Act at Helsinki, West Germany, through quiet diplomacy, had negotiated the release of 65,000 ethnic Germans from Eastern Europe. Renewal of the cold war would jeopardize further gains. Other Europe leaders, however, backed the President's human rights stand. He "is formulating a concept that is common to us all," declared Italy's Prime Minister Giulio Andreotti. Britain concurred. "In a world grown cynical it has been a consolation that President Carter should so robustly have upheld human rights as enshrined [in the Final Act]..." Roy Jenkins, President of the Commission of the European Communities, told the Chicago Council on Foreign Relations.

Defending its Soviet policy, Administration spokesmen have insisted that there is no linkage between human rights on the one hand and strategic arms limitation or economic cooperation on the other. The U.S., they say, will speak out on behalf of human rights when those rights are violated; it will also continue to pursue arms control accords and a reduction in international tensions. But in what some observers saw as a tacit admission of past mistakes, the Administration last July formed an interagency committee under the State Department to coordinate future policies toward the Soviet Union. Meanwhile, the President, in a Charleston, S.C. speech on U.S.-Soviet relations, gave his main stress to arms control and opined that "an atmosphere of peaceful cooperation is far more conducive to an increased respect for human rights than an atmosphere of belligerence or hatred or warlike confrontation." Moscow quickly acknowledged the "positive" tone of the speech.

While the Administration has been somewhat defensive about its human rights policy toward the Soviet Union, it sees evidence elsewhere that the policy has begun to produce results:

> Eastern European countries have cooperated in the family reunification program and have otherwise relaxed their emigration rules.
>
> Czech signers of Charter 77 and Polish workers and human rights activists would probably have received even harsher treatment if the U.S. had not spoken out in their defense.
>
> In Latin America, Bolivia, Ecuador and Peru plan to hold elections before the end of 1980 and Uruguay in 1981. In Argentina and Chile, the State Department found a decline in political repression last year. Argentina, Chile, Haiti and others have released some political prisoners and there are fewer reports of torture.

> In Asia, South Korea has released some political prisoners.
>
> In Africa, the military government of Nigeria, the continent's largest country, has promised a return to civilian rule in 1979 with free elections for a new parliament—the first since suspension of constitutional government in 1966.
>
> In the economic sphere, several African countries are beginning to develop programs to lessen the vast disparities between rich and poor. And some Latin American countries are again pursuing land reform in an effort to give their people a stake in their own country.

At the same time that the Administration was claiming progress in its human rights drive, some observers detected a loss of momentum by mid-summer. They felt the Administration was more cautious in its approach to human rights violators. Other observers complained that the U.S. was beginning to renege on its commitment and was applying a double standard, exacting higher standards of behavior from weak countries which represent no threat to us than from strong countries of strategic importance.

Secretary of State Cyrus R. Vance acknowledged that balancing human rights and national security needs is a very difficult task, and that in some instances the U.S. risked appearing hypocritical. "We must always keep in mind the limits of our power and our wisdom. . . . A doctrinaire plan of action would be as damaging as indifference. We must be realistic. Our country can only achieve our objectives if we shape what we do to the case at hand. . . ."

Critics and supporters alike agree that the U.S. has a moral commitment to human rights. Where they differ is on the question of whether our concern and our commitment should be translated into direct action.

THREE BASIC OPTIONS

In its first year, the Carter Administration's human rights policy received widespread public applause. But there was also criticism—some for being too strong, some for being too weak. The nation has yet to decide clearly its future direction on this question: What place should we make in our foreign policy for the ideals of freedom on which this nation was founded?

A case can be made for any of three broad options.

1. The idealistic option calls on our country to give top priority to human rights in our foreign policy, supporting that cause consistently and vigorously wherever people are not free—even if this means confrontations. To this end we should use all effective means short of war. These include public and diplomatic pressure, plus the leverage of withholding various benefits such as diplomatic relations, economic aid, trading privileges and other forms of cooperation. We should also bring to bear the force of international law and other standards of conduct, not only by joining and invoking existing treaties such as the International Covenant on Civil and Political Rights, but by working to build new and more-enforceable world law to bring human rights violators to justice. And where deprivation of *economic* rights is a main obstacle to freedom, as in most of the third world, we should attack the roots of poverty by insisting on fundamental political and social reform as a condition of our aid.

Such a policy, its advocates would argue, will:

Promote a national foreign policy consensus reflecting our country's fundamental values—a policy the people can be proud of and be willing to sacrifice for.

Demonstrate to the world that America stands for something better than sheer power, something that responds to universal human aspirations.

Free our country from morally distasteful alliances with dictators.

Speed the evolution of a world community of freedom, the only kind of world in which our people can feel secure—since freedom is indivisible.

As Secretary Vance himself has said: "Our own well-being, and even our security, are enhanced in a world that shares common freedoms and in which prosperity and economic justice create the conditions for peace. . . . We always risk paying a serious price when we become identified with repression."

Proponents of this course reject the view that U.S. opposition to injustice in powerful countries, especially the Soviet Union, endangers our own interests in arms control and other East-West agreements. The Soviets, they argue, have as much interest in such accords as we have. Moreover, the Soviet Union itself pursues revolutionary goals around the world—in Angola, for example—and is free to advocate its beliefs in our own open society. Why should we shrink from pursuing our beliefs with the same vigor? As for warnings of a tinderbox in Eastern Europe, it is not our responsibility to help the Soviets police their empire; rather, we can help by peaceful means to keep alive a potential for autonomy in that area.

As for the problem of poverty and freedom, this view holds that third-world economic development and political development are inseparable. We should not fear to press for land reform, equitable taxes, etc., even if this risks social turmoil, for the longer reform is postponed, the worse the turmoil will eventually be.

2. *The security option* calls for this country frankly to subordinate its ideal of universal freedom to the necessity to maintain and stabilize the global power balance with our main adversary, the Soviet Union. In this perspective, the only freedom which we have a duty to promote and defend is the freedom of the American people. Abroad, the promotion of human rights is one of many U.S. foreign policy concerns, but in the thermonuclear age it ranks nowhere near the top. The primary consideration, as Senator John Sparkman (D–Ala.), chairman of the Foreign Relations Committee, has said, "must remain the security of the U.S., its allies and its friends." This strategy does not mean an all-out arms race but rather a high priority for regulating the military and political competition with the Soviet Union—for unless that is done, grimly observes Sovietologist Marshall D. Shulman, "there will be no opportunity for the strengthening of democratic values."

According to this policy view, the U.S. should judge other governments only by how they deal with this country, not by how they treat their own people. Many a time we have felt the need to form relationships with dictators or oppressors in order to obtain some facility or geographic position, or to fill a strategic or economic need in our contest of power with the only country that can destroy us, the Soviet

Union. We should never hesitate to do this. We should maintain diplomatic relations with any regime that controls a country and can protect Americans' interests there. We should give up our futile and quixotic passion for ridding the world of injustice. "Moral indignation," said the English historian Herbert Butterfield, "corrupts the agent who possesses it and is not calculated to reform the man who is the object of it." It is enough if we contribute to the universal cause of human rights by keeping a free America secure, and by promoting a more just society at home as an example to the world.

3. The pragmatic option holds that our foreign policy should avoid any rigid strategy or set of rules concerning human rights, but should treat each case as unique—balancing our security needs against human rights and other traditional ethical values.

This approach, while fully accepting our historic commitment to freedom, insists that we must responsibly recognize the limits of this or any other nation's capacity to shape world events. Like a prudent pensioner, we must learn not to live beyond our means, not to attempt more than we can perform. This is especially true in dealing with such a complex value as freedom, which cannot be imposed from the outside or conveyed as a gift, but must be earned and kept by the virtue and exertions of the peoples who seek it.

In pursuing human rights goals, this argument insists, perfectionism and cynicism are equal and opposite dangers. As the Carter Administration has acknowledged, we have security and economic interests which often call for dealings with undemocratic governments such as those in South Korea, Iran and South Africa, and such situations will continue to arise. Furthermore, societies which have little tradition of democracy may take many years of trial and error before they can deal with the stresses of free debate. They should not in the meanwhile be deprived of the aid and friendship of the U.S.

Moreover, denying aid or other benefits to all countries that violate human rights would mean punishing many countries that give important support to our other foreign policy goals.

Therefore, in determining its policy toward human rights violators, the U.S. should study each unique case to determine the most appropriate response in the light of all our interests, human rights included. It should examine the extent of the violations: are they increasing or declining? It should consider the means for effective action as well as the possible undesired side effects. If aid to an oppressive government is withheld, for example, will we punish the victims along with their oppressors?

"Our political and moral principles," writes philosopher Charles Frankel in his HEADLINE Series for the Foreign Policy Association on "Morality and U.S. Foreign Policy," "are not applicable everywhere and are not wanted everywhere. And if they were applicable and wanted, they would still be beyond human powers to implement everywhere." But on the other hand, he warns, when we are indifferent to these values "we do violence to our sense of ourselves and destroy a principal source of our power in the world." Awkward and undramatic it may be, but the course of wisdom when caught between conflicting principles of equal weight is to walk the middle road.

Of these three basic options, which do you think the U.S. should follow?

WHY AMERICAN BUSINESS SUPPORTS THIRD WORLD FASCISM*

(By Noam Chomsky and Edward S. Herman)

The Vietnam war has been digested by the U.S. political system with hardly a trace. Essentially the same people manage national affairs, and possess virtually exclusive access to the mass media; the critics of the war have lapsed, or been forced, into silence; and the media have not allowed the vast accumulation of sordid details about our Vietnam involvement to disturb the myth of U.S. benevolence and concerned pursuit of democracy abroad. This myth has remained unruffled even in the face of the accelerating "Brazilianization" of the Third World over the past decade, very often under active U.S. sponsorship, with frequent displacement of democratic governments and extensive and growing resort to repression, including physical torture, imprisonment, death squads, and mysterious "disappearances," all within the U.S. sphere of influence. And now the President of the country that has sponsored and supported the Somoza family, the Shah, Marcos, Park, Pinochet, Suharto, and the Brazilian generals has announced a campaign for human rights throughout the world.

The background against which human rights issues have arisen in the period since 1945 includes an unparalleled, worldwide, economic expansion by the United States, its establishment of a global military presence with a peak of over 3,000 foreign military bases virtually surrounding both the Soviet Union and Communist China, and interventions in the affairs of other states that are unmatched in number, scale, and global reach. In the face of these developments, the myth has been successfully established in the public mind, and in liberal circles in Western Europe, that the United States is merely "containing" other "expansionist" powers! Rarely is the United States portrayed by the mass media or mainstream academic scholarship as engaged in the positive pursuit of its own economic-imperial interests at the expense of any people standing in its way; nor are its exploits described as subversion or outright aggression.

The hypocrisy and sheer silliness of much political commentary in this regard are truly remarkable. To cite only one example, William V. Shannon, liberal commentator for the *New York Times* and President Carter's ambassador-designate to the Republic of Ireland, laments the failures of American policy in these terms (September 28, 1974):

"For a quarter century, the United States has been trying to do good, encourage political liberty, and promote social justice in the Third World. But in Latin America where we have traditionally been a friend and protector and in Asia where we have made the most painful sacrifices of our young men and our wealth, our relationships have mostly proved to be a recurring source of sorrow, waste, and tragedy."

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Even in Chile, he explains, our "benevolence, intelligence and hard work have proved not to be enough," as we intervened "with the best of motives." We are trapped in "ironic paradoxes" as we seek to "advance our moral ideals" throughout the world.

Such self-deception can reach quite extraordinary heights. Suppose that Fidel Castro had organized or participated in at least eight assassination attempts against the various presidents of the United States since 1959. It is safe to conclude that the *New York Times*, CBS News, and the mass media in general would have portrayed him as an international gangster and assassin, who must be excluded from the community of civilized nations. But when it is revealed that the United States has made or participated in that many attempts on Castro's life, it's just "one of those things that governments do." The press will hardly suggest on the basis of such information that the world's "nations have to evaluate the U.S. potentiality as a responsible world citizen," to paraphrase a recent *Christian Science Monitor* editorial that had the gall to assert that the United States, after the record of the past 30 years, is entitled to stand in judgment over Vietnam for its alleged violations of human rights!

President Carter has kindly offered to move toward normalizing relations with Cuba if it will refrain from "participating in violence across the oceans, [and] will recommit[sic] the former relationship that existed in Cuba toward human rights. . . ." Eight admitted attempts on Castro's life, a sponsored invasion, innumerable acts of sabotage—but Carter can talk about Cuban external violence *and not be challenged or ridiculed by anyone whose voice can be heard*. Carter's reference to the state of civil rights in Cuba under the Batista dictatorship also elicited neither criticism nor satire.

THE ECONOMIC ADVANTAGES OF FASCSIM

Since the Second World War there has been a steady deterioration of political and social conditions in Latin America and generally throughout Third World areas that are within the "Free World" orbit. Liberal ideologists treat this as fortuitous and independent of U.S. choice and power, claiming that as a democracy we support democratic institutions abroad, while any contrary trends are based on forces over which the United States has no control. In the process it is necessary to suppress and belittle the long-standing relations between the U.S. political-military elite and the military juntas and comprador elements in states like Brazil, the economic advantages of Third World fascism to U.S. economic interests, and the evidence of positive U.S. political and economic support for brutal dictatorships and frequent hostility to *reformism* as well as radicalism in the Third World.

The real relationships are shown in the table on page [619] which relates U.S. economic and military aid (and that of U.S-dominated international lending agencies) to various political and human rights and economic factors. The table focuses on a series of strategic changes, whose dates are shown in column 1, for ten U.S. client countries. Columns 2–4 describe the effect of these events on the political environment and human rights, with minus signs (–) indicating an adverse effect on human rights, i.e., a decline in democratic institutions and an increase in use of torture and incarceration of political prisoners.

Column 5 shows the effect of these events on the "climate of investment": 5a shows + if laws or regulations were subsequently changed to reduce taxes on foreign companies or to make it easier for them to repatriate profits, and 5b shows + if labor conditions were improved from the standpoint of foreign investors. Columns 6–10 show percentage changes in aid and credits from the United States and international organizations for the two or three years after the political change as compared with comparable period prior to the event. For example, for Brazil, 1964 is a strategic date, as noted in column 1. We can see that human rights deteriorated, investment climate improved, and overall aid and credits by the U.S. and multinational lending organizations went up 112 percent in the three years following the coup as compared to the three years preceding the coup.

U.S. Aid, Investment Climate, and Human Rights in Ten Countries

Country	Strategic Political Date¹ (1)	Positive (+) or Negative (−) Effects on Democracy (2)	(−) means an increased use of torture or death squads (3)	(−) means an increase in No. of political prisoners (4)	Improvement in Investment Climate: tax laws eased (+) (5a)	Improvement in Investment Climate: labor repressed (+) (5b)	Economic Aid (% change) (6)	Military Aid (% change) (7)	(6) + (7) (% change) (8)	U.S. and Multi-national Credits (% change) (9)	Total Aid (8) + (9) (% change) (10)
Brazil	1964	−	−	−	+	+	+ 14	−40	− 7	+ 180	+ 112
Chile	1973	−	−	−	+	+	+558	− 8	+259	+1,079	+ 770
Dominican Republic	1965	−	−	NA	+	+	+ 57	+10	+ 52	+ 305	+ 133
Guatemala	1954	−	−	NA	+	+	NA	NA	NA	NA	+5,300
Indonesia	1965	−	−	−	+	NA	− 81	−79	− 81	+ 653	+ 62
Iran	1953	−	−	−	+	+	NA	NA	NA	NA	+ 900
Philippines	1972	−	−	−	+	+	+204	+67	+143	+ 171	+ 161
South Korea	1972	−	−	−	+	+	− 52	−56	− 55	+ 183	− 9
Thailand	1973	+	+	NA	−	−	− 63	−64	− 64	+ 218	+ 5
Uruguay	1973	−	−	−	+	+	− 11	+ 9	− 2	+ 32	+ 21

Sources: 1. Information on torture and political prisoners mostly from the *Amnesty International Report on Torture*, 1975 and *The Amnesty International Report, 1975-76*, 1976. Supplemented with data from newspaper articles, journals, and books on the specific countries. Data on investment climate largely from articles, journals, and books on the specific countries.

2. Data on aid taken from *U.S. Overseas Loans and Grants and Assistance from International Organizations*, A.I.D., 1972 and 1976 editions, for years 1962-1975. Data previous to 1962 taken from *Historical Statistics of the United States*, Bicentennial Edition, Dept. of Commerce, 1975.

In some respects this table is incomplete and occasionally misleading. Trends in torture and numbers of political prisoners are not easy to establish, and in a few instances the evidence is tentative. Aid figures can also be misleading, as other factors may temporarily distort a a real relationship: e.g., the decline in aid to South Korea after the Park coup of 1972 was greatly influenced by the withdrawal of South Korean mercenaries from South Vietnam and the resultant decline in U.S. payments for these hired soldiers. The reduction in military aid to Chile after the fascist coup of 1973 is also misleading, since the high rate of military aid under Allende reflected U.S. support for the right-wing military in the interests of counter-revolution.

For all its limitations, this table bears out in graphic form a set of relationships that should be obvious to any student of recent Third World history. For most of the ten countries, U.S.-controlled aid has been positively related to investment climate and inversely related to the maintenance of a democratic order and human rights. (Only in the cases of South Korea and Thailand is the pattern reversed, and special circumstances apply in both cases.)

The pattern revealed is clear, persistent, rational, and ugly. Human rights have tended to stand in the way of the satisfactory pursuit of U.S. economic interests, and they have been systematically brushed aside. U.S. economic interests in the Third World have dictated a policy of containing revolution, preserving an open door for U.S. investment, and assuring favorable conditions of investment. Reformist efforts to improve the lot of the poor and oppressed, including the encouragement of independent trade unions, are not conducive to a favorable climate of investment. Reformism means instability and strikes, neither of which attracts corporations. As *Business Week* reported in late 1976, "Fiat may still find Brazil a good place to put its money; the military government is stable, and labor peace prevails." Democracy is also not conducive to a favorable climate. As noted by Edward A. Jesser, Jr., chairman of the United Jersey Banks, in a speech to the American Bankers Association: "Quick and tough decisions can be made in a relatively short time in a country such as Brazil, compared to the difficulty there is in reaching agreement on what actions to take in a democracy."

The perspective of the business community was illuminated in last year's ten-page Special Report by *Business Week* on "Reversal of Policy: Latin America Opens The Door To Foreign Investment Again." The editors are positively ecstatic about these new developments. The report is studded with such terms as "pragmatic," "realistic," "stability," "tough," and "confidence." The words "democracy" and "torture" do not appear in the Special Report, nor is there any discussion of trends in income distribution or the allocation of budgetary resources to arms, business subsidies, and education and medical research. The word "repression" appears once, in the following context:

"A unifying theme of Latin military governments is that they stand—or claim to stand—for social and economic progress, not just law and order. Faced with a choice, however, they are likely to postpone social improvement as a goal secondary to economic consolidation [sic: whatever this means] and political stability, imposed with varying degrees of repression." In the same article, *Business Week* even expresses pleasure with Chile, "whose economy had been reduced to a shambles" by Allende—no mention of the CIA-ITT contribution. Fascist achievements "have been obscured by a deep recession and by the harsh austerity measures"—the truth is that industrial output fell marginally under Allende, whereas the index went from 113 to 78 under the junta. These muddled apologetics exhaust *Business Week's* analysis of welfare, income distribution, and political trends in Latin America. The important point, though, is that the magazine that represents "enlightened" U.S. business interests displays unqualified enthusiasm for Third World fascism, based clearly on its favorable impact on U.S. business. Any adverse effects on the majority of the population are completely irrelevant.

SECURITY INTERESTS

There is also a convergence of economic and military-strategic interests in support of Third World fascism, because the military juntas in charge usually have a client relationship to the U.S. military establishment, are cooperative on U.S. bases, and specialize in the cleaning up of any subversives and protestors who challenge the satellite relationship. The military-strategic interest may have some autonomy of its own, but the size, role, and global spread of the U.S. military establishment cannot be explained with any plausibility except as derivative from a global economic interest. Accordingly, both economic and strategic interests have produced a natural alliance with military juntas and the elite remnants of the old colonial order. These groups have had to rely on force to preserve power, and they have also had, in collusion with their foreign sponsor, a strong propensity to feather their own nests by means of both graft and simple exploitation of the underlying population.

There is a close relationship between the terror employed in Brazil, Chile, and other client fascisms and their economic policies. Special tax privileges to foreign business and dependence on foreign investment for economic growth are not easy to achieve under a democratic order in this era of Third World nationalism. Neither are control over wages and the banning of strikes and other actions that disturb a "favorable investment climate." A persistent characteristic of neocolonialism is the preservation of labor as a cheap commodity. In the Philippines, real wages have declined sharply for both rural and urban workers. According to the *New York Times*, in "an era of rising commodity prices, labor remains the cheap component. . . . Manila remains one of the few capitals of the world where a taxi ride from the airport to the center of the city costs less than a dollar with tip." This cheap labor is not a result of the operation of a freemarket. In the Philippines, as in Brazil and Chile, the forces of supply and demand are not allowed to work without constraint—wages have been controlled by government fiat, and such controls have been used to keep profits up and Brazilian and Chilean goods competitive.

It is hardly any wonder, then, that the Brazilian "economic miracle" has made the rich richer and a large proportion of the poorer members of the population *absolutely* as well as relatively poorer. The relative share of the richest 5 percent increased from 29 percent in 1960 to 38 percent in 1970; the real income of the lowest 40 percent of income recipients fell absolutely during the same decade. *Business Week* reported in 1975 that the real wages of the lowest 80 percent of the Brazilian population have been steadily dropping since 1964—the year the generals took over—despite a tripling of the gross national product to 80 billion. In 1971, 65 percent of Brazil's economically active population subsisted on a monthly income of $60 or less.

Just as in Thieu's South Vietnam, so in Brazil very high quality medical service is available in the larger cities for the upper 5 percent of income recipients, but negligible medical resources are available in the countryside. Vastly more resources are applied to the police than to medical research and facilities. The Ministry of Health's share of the national budget fell from 4.29 percent in 1966 to 0.99 percent in

1974. Clearly the new Brazil, so pleasing to *Business Week* and the U.S. business community, is not exactly a welfare state.

A U.S. MODEL OF GROWTH

In his *Stages of Economic Growth*, Walt W. Rostow describes an idealized development process for Third World countries that come into our orbit: they become gradually like us, with advanced industrial technologies and democratic institutions. The Dominican Republic offers an earthy illustration of the reality of development processes under U.S. auspices. It is an especially apt and relevant case for this reason: with and after the invasion of 1965 the United States reasserted effective control over that small country and has since thoroughly dominated its politics and economics. Given the absence of any threatening counterforces, we can say that in the Dominical Republic the flow of events must have been in conformity with the desires of the U.S. foreign policy leadership.

It will be recalled that the United States invaded the Dominican Republic in 1965 to prevent the displacement of the relatively benign fascist regime of Donald Reid Cabral by the Constitutionalists of Juan Bosch, who had been overthrown by a military coup in 1963 without eliciting any U.S. intervention to save him and his brief experiment in democratic government. The invasion of 1965 reestablished a firm U.S. grip on the island. As Bosch put it in June 1975, "This country is not pro-American, it is United States property." What, then, have been the main characteristics of the Dominican model of Third World development, as seen in a country under close U.S. surveillance and control?

The first characteristic is extensive and systematic terror. In the Dominican Republic, Guatemala, and Brazil, three client fascisms that came into being with explicit U.S. connivance, by a strange coincidence paramilitary death squads quickly made their appearance and went on rampages against political dissenters, petty criminals, and sometimes purely arbitrary victims. Amnesty International reported on the Dominican Republic: "In 1970 it was alleged that there was one death or 'disappearance' every 34 hours." In July 1971 Norman Gall claimed that in the post-1965 era political murder in the Dominican Republic exceeded that of any comparable period under Trujillo. Gall went on to note that the essential function of political terror in the Dominican Republic has been to control the slum population, "which was the main force that defeated the Dominican military in the 1965 revolution."

The Wall Street Journal reported on September 9, 1971, that "The conservative Catholic Church hierarchy has condemned the 'institutionalization' of terror." The Journal also claimed that the opinion was widespread in the Dominican Republic that the United States was behind the paramilitary death squads. Whether or not this specifiic allegation was true, the Journal reported that "the Embassy has done nothing publicly to disassociate itself from the terror. The United States continues to provide substantial aid, training, equipment, and arms, to the Dominican police and army."

Since 1971 the rate of killing has slackened, but political assassinations continue on a steady basis. The incarceration and torture of

political prisoners also continues to play its role in maintaining stability. So does the steady outflow of dissidents who survive the death squads and tire of the struggle.

In its March 1977 Human Rights Report to Congress, the State Department blandly observes that "The Dominican Republic does not have a tradition of political democracy." The report passes in silence from the era of Trujillo, who "left a legacy of brutality and contempt for human rights" when he was deposed in 1961, to "the present constitution of 1966," under which "the Dominican Republic is a representative democracy." Not a word about the American invasion of 1965 and its aftermath. While there were human rights violations in the late 1960s and early 1970s, the report concedes, nevertheless, "Observance of the right to life, liberty, and security of the person is generally respected in the Dominican Republic, except for persons suspected of engaged in violence or seeking the violent overthrow of the government. In such cases the legal rights of individuals apprehended are not always observed."

A GOVERNMENT FOR HIRE

A second characteristic of the Dominican Republic model is widespread venality. Alan Riding writes in the New York Times (June 6, 1975) that "the blatant corruption of military and civilian sectors of the government is spreading bitterness among the urban masses, whose wages have been held down despite high inflation rates since 1966." The military and police in this client state are large and well taken care of. Alan Riding reports that one method whereby Balaguer retains control is "by openly allowing senior officers to enrich themselves. With official salaries of $700 a month, for example, most of the country's 37 generals live in huge modern houses, drive limousines, and own cattle ranches."

A recent 8-K report to the Securities and Exchange Commission by Philip Morris shows: (1) a $16,000 payment to a Dominican tax official for a favorable tax ruling; (2) the payment of $120,000 to various Dominican legislators for passage of a law that would give Philip Morris a privileged position in the Virginia tobacco line; and (3) monthly payments of $1,000 by Philip Morris to Juan Balaguer himself. The president of a presumably independent state taking payoffs from a private foreign business firm would seem rather sensational, but this passed virtually unnoticed in the United States. U.S. firms get business done not only by payoffs but by putting important people on their payrolls and by building both personal and financial ties to the ruling elite. Thus the brother of the important Director of Tourism is a vice-president of Gulf & Western's sugar-producing subsidiary in the Dominican Republic.

A potential competitor to Gulf & Western's large seaside resort at La Romana, M. Wayne Fuller, has run into a steady stream of obstacles from the Tourism Office in importing supplies and obtaining tax concessions supposedly available to foreign enterprises. In April 1975, a government decree was signed expropriating Fuller's beach land property—for use as a public park—helped along possibly by the fact that the president of another G & W subsidiary was an adviser to the Dominican Republic Park Commission. This decree was rescinded when Fuller mobilized *his* forces, including various army officers and Balaguer himself. In brief, foreign interests are exceedingly powerful as they curry and buy favor and mobilize their elite cadres, with whom they jointly dominate and loot this small dependency.

SWEETS FOR THE SWEET

A third characteristic of the Dominican model has been a radical sweetening of conditions for foreign business and a strong reliance on foreign investment for national development. As in Greece under the Colonels' regime of 1967–1973, great stress has been placed on tourism and investments related to tourism (foreign hotels, airport development). An Investment Incentives Law of 1968 removed any restrictions on foreign ownership, extended generous tax and duty exemptions to new investments, and guaranteed capital and profit repatriation. U.S. companies have swarmed into agriculture, food processing, mining, banking, and hotel and resort complexes. Gulf & Western is the largest landowner and employer in the country, with over 10 percent of all the arable land, mainly in sugar, and with a large resort complex. The conglomerate also serves as private manager of a large tax-free zone adjacent to G & W's Cajuiles golf course. One of the many Dominican Republic ads in the *New York Times*—funded in good part by "contributions" from foreign companies in the country—notes that companies settling within the G & W free zone "are given special duty free import and export privileges. They are granted a 10-year tax-free status."

A fourth characteristic of the Dominican model, closely related to the preceding, is effective government pacification of the labor force, a crucial requirement for an appropriate "climate of investment." As noted above, the systematic police terror since 1965 has returned the large urban proletariat and sub-proletariat to the desired state of passivity, and the countryside has been more easily kept in line by periodic violence and threats. The Dominican Republic advertisement section in the *New York Times* of January 28, 1973, has a heading entitled "Industrialists Dream of Chances Like These," featuring the *low*, low wage rates, running between 25 and 50 cents an hour. The ad stresses the role of the *law* in fixing hours and wages and allowing the free import of foreign technicians. There is no mention of any trade unions, but employers will properly read between the lines that unions have been broken and pacified. Of special interest is the regular use of government troops and police to break up independent unions. The agricultural union *Sindicato Unido*, which operated the G & W fields, was broken by police action in 1966 and 1967, and a number of its leaders, including the union lawyer Guido Gil, were arrested and killed by the forces of law and order. Another major foreign enterprise, Falconbridge Nickel, also successfully broke a union with army and police assistance in 1970.

In containing unions and rendering them docile the Dominican elite has had the steadfast support of the AFL–CIO which has long cooperated closely with the CIA and international business firms in this unsavory operation. Its arm, CONATRAL, actually helped destroy the pro-labor Bosch regime in 1963 and has steadily supported its totalitarian and antilabor successors. Presumably their blind hatred of communism and radicalism in general has led Meany and his close followers to sell out systematically the interests of labor in the Dominican Republic and in other U.S. satellites. Meany and some other labor bosses actually have a more direct interest in the pacification of labor in the Dominican Republic. Meany, his number-two man Lane Kirkland, Alexander Barkan, director of COPE, the AFL–CIO political arm, and Edward J. Carlough, president of the sheet metal workers, are all stockholders in the 15,000-acre Punta Cana resort and plantation in the Dominican Republic. In order to clear the ground for this enterprise designed for the Beautiful People, a large number of squatters were evicted by the army.

A fifth characteristic of the Dominican model, following naturally from the preceding, is the sharp deterioration in the well-being of the bulk of the population. The effect of the 1965 counter-revolution and installation of the Dominican model on income distribution and welfare is summarized by the Wall Street Journal (September 9, 1971) as follows:

> The middle and upper classes are better off, as are the lower classes lucky enough to have jobs. But work is scarce; the poor are poorer and more numerous. "Per-capita income is about the same as before 1965, but it's less equitably distributed," a foreign economic expert says. He estimates per-capita income at $240—three times that of Haiti but half that of Cuba. . . . Malnutrition is widespread. Says George B. Mathues, director of CARE in the Dominican Republic: "You see kids with swollen bellies all over the country, even here in Santo Domingo." Food production is hampered by semifeudal land tenure. At last count, less than 1 percent of the farmers owned 47.5 percent of the land, while 82 percent farmed fewer than 10 acres.

These effects, and the cultural degradation of the Dominican Republic, are obviously beside the point. "Stability" has been brought to the country, and from the perspective of U.S. investment opportunities, the Dominican Republic deserves the glowing description of a U.S. Embassy report describing it as a "little Brazil" and "one of the brightest spots in Latin America."

The linkage between American power and severe human rights violations is systematic, not accidental. The American defeat in Indochina, though of great significance, led to no institutional changes within the United States. Even the doctrinal system, bruised when the indiscriminate violence of the American assault could no longer be suppressed, has quickly been restored, with the aid of ideological institutions: the mass media, the academic professions, the schools, the journals of opinion. It is sheer romanticism to expect, under these circumstances, that a sudden concern for human rights might significantly influence the foreign policy of the United States. To some extent this new concern may reflect genuine beliefs on the part of individuals who have absorbed the more humane elements of Western ideology. But the underlying forces that have given precedence to "investment climate" for many decades still determine the broad sweep of policy. Genuine moralists in power find "business confidence" sagging when they push too far in humanistic directions, even verbally. Whatever their real aims, their discretion is sharply limited.

Thus far, in fact, the Carter human rights campaign—mainly one of words rather than deeds, in any case—has been relatively strong on Soviet violations on civil rights and weak or nonexistent on human rights in U.S. client states. Carter has written to Sakharov and received Bukovsky in person, but he has not communicated with Mrs. Allende. His campaign has had an impact on Soviet attitudes, but not those pertaining to human rights; rather, it has added to Soviet suspicions of U.S. interest in controlling the arms race. Carter's mobilization of power in Congress has not been sufficient to prevent the conservative House from voting against aid to Cuba, Vietnam, Mozambique, and several other exclusively left-oriented states, while preserving it intact for client fascism. Thus, whatever Carter's real intentions, his human rights movement thus far has worked out in practice to exacerbate cold war tensions and affect minimally human rights in areas under United States influence.

But while the new moralism is not likely to have a large impact on human rights, it may well be effective as an instrument of propaganda. After the horrors of Indochina, some dramatic initiatives were needed to reconstruct the image of American benevolence that has proven so useful a device to achieve conformism and obedience in this highly indoctrinated society. These results obtained, the United States will be able to return to the "activist" foreign policy that is essential for preserving the global interests of American capitalism.

Still, in spite of these facts, there may be some marginal gains to human rights from the new propaganda offensive. The expressed concern for human rights may offer opportunities for people who are genuinely interested in the issue. They can exploit the new rhetoric, and should, to try to alleviate the suffering and oppression of the victims of terroristic states, and they may even be able to enlist some support in the United States, when this is not unduly expensive—which is perhaps more than one could have hoped during the past three decades. But it is hardly reasonable to expect that the recent discovery of human rights violations will offset the systematic factors that impel the United States to impose and support client fascism, factors based on powerful and compelling economic interests that have in no way been diminished by recent developments, domestic or international.

INTERNATIONAL DEVELOPMENT AND COOPERATION ACT *

(Mr. GOLDWATER asked and was given permission to address the House for 1 minute and to revise and extend his remarks, and to include extraneous matter.)

Mr. GOLDWATER. Mr. Speaker, a week ago today I had the opportunity to go out and campaign for the gentleman from the 11th District of California, Mr. BILL ROYER, and fortunately he was victorious. During a moment of campaigning I was stopped by a husband who was on his way home from work. I asked him to go and vote, and we got engaged in a long conversation about foreign aid. He made it very clear that he was opposed to his Government giving away his tax money, and he saw little value in it.

I would suggest, Mr. Speaker, that perhaps he was expressing the concern of a lot of Americans as to our policy of foreign aid. Why is foreign aid a "dirty word" to the U.S. taxpayers? For just a minute, stand back and try to see it from their perspective. Consider the following:

Last year, the President vetoed a public works bill because he claimed that $42 million for U.S. public works was inflationary.

This year, the administration sent the Congress a bill proposing a $600 million cut in social security benefits.

Last Monday morning, the Congress increased our national debt limitation to $832 billion, and the budget is set at over a half a trillion dollars.

Gas prices will probably hit the dollar a gallon mark by the end of the summer.

Overall inflation will probably be double digit by the end of the year.

The President's asking citizens to hold pay increases to 7 percent.

The U.S. dollar continues to take a beating on foreign money markets and our balance of payments are amongst the worst of any industrialized nation in the world.

Now, what good does the U.S. taxpayer see coming about because of his past and present generosity to the rest of the world? Not much, I can assure you.

He sees the United States giving away a canal it bought and paid for several times over, and then is asked to pay the recipient of the gift to take it.

He hears himself being called every name in the book by every petty dictator from Africa to South America, and then has to hear these same dictators demand more of his hard earned dollars.

He hears stories of starvation in India and then finds that India has used his tax money to develop an atomic bomb.

He is admonished by the United Nations to get out of Puerto Rico; told by his own representatives to the U.N. that he needs to change his value system; subjected to derision by the majority of U.N. delegates, and then asked to pay the lion's share of running the organization.

He sees the spread of communism throughout the world; watches his President cave in to every demand of Red China; sees his government desert traditional, long time allies and court the favor of avowed enemies; and he's understandably confused by a muddled "human rights" policy that is both hypocritical an contrary to U.S. interests.

I would like to ask unanimous consent to print at the conclusion of these remarks a list of recipients of U.S. aid and the amounts these countries have received between 1946 and 1977.

Keep this list handy, and the next time you read about an American Ambassador being shot; or an African dictator giving himself a $25 million coronation; or an anti-U.S. resolution in the U.N.; or another developing country welcoming the presence of Cuban troops and Russian advisers, get this list out and find out just how much good will our foreign aid dollar has brought us.

The U.S. taxpayer has had it. He is suffering financially at home. He is despised abroad, and until there is some kind of change, he is justifiably opposed to sending billions of dollars out of this country that could better go toward meeting his needs and paying his debts. As one of my constituents recently observed, "you gotta be just plain crazy to keep paying somebody to spit in your face."

I would suggest, Mr. Speaker, that it is probably time that the Congress reevaluate our entire foreign aid program to make sure that it meets with the needs and the desires and the anxieties that most Americans hold inside.

HISTORICAL TOTALS OF U.S. ECONOMIC AND MILITARY ASSISTANCE, SENATE REPORT No. 95-1194

Summary for all countries

[In thousands]

Total Economic and Military Assistance, fiscal years 1946-1977	$199,609,000
Total, Other U.S. Loans and Grants, fiscal years 1946-1977	31,398,000
Total, fiscal year 1978 (estimated)	9,948,366

See footnotes at end of table.

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*Remarks by Congressman Barry Goldwater, Jr. in the House, from the Congressional Record [daily ed.] vol. 125, Apr. 10, 1979: H2189–H2191.

Summary for all countries—Continued

(In thousands)

Grand total, U.S. Foreign Assistance, fiscal years 1946–1977	¹ 240,955,866
Details by region and country (fiscal years 1946–77)	
A. Near East and South Asia	49,001,599
Afghanistan	530,270
Bahrain	3,075
Bangladesh	1,119,106
Cyprus	103,601
Egypt	3,352,108
Greece	5,050,230
India	9,909,283
Iran	2,164,840
Iraq	96,584
Israel	10,121,703
Jordan	1,025,063
Lebanon	197,650
Nepal	210,236
Oman	1,368
Pakistan	5,529,117
Saudia Arabia	326,516
Sri Lanka	561,470
Syria	375,600
Turkey	7,516,743
Yemen, People's Democratic Republic of	4,600
Yemen, Arab Republic	84,920
Central Treaty Organization (CENTO)	55,176
Near East and South Asia Regional	501,848
B. Latin America	16,654,960
Argentina	661,848
Bahamas	301
Barbados	2,130
Belize	8,060
Bolivia	818,926
Brazil	3,062,531
Chile	1,359,987
Colombia	1,501,128
Costa Rica	229,371
Cuba	30,130
Dominican Republic	578,041
Ecuador	302,586
El Salvador	197,321
Guatemala	426,028
Guyana	67,362
Haiti	207,093
Honduras	252,679
Jamaica	138,881
Mexico	300,011
Nicaragua	302,245
Panama	391,729
Paraguay	194,677
Peru	714,018
Surinam	5,805
Trinidad and Tobago	40,486
Uruguay	248,556
Venezuela	253,684
ROCAP	276,628
East Caribbean Regional	90,625
Latin America Regional	4,010,983
C. East Asia	61,750,782
Burma	180,631
Cambodia	2,130,209
China, Republic of	6,843,351
Hong Kong	43,800
Indochina, Undistributed	1,557,067
Indonesia	2,461,241
Japan	3,950,735
Korea, Republic of	12,831,817
Laos	2,806,214
Malaysia	196,008
Philippines	2,751,793
Ryukyu Islands	397,825
Singapore	32,663
Thailand	2,241,844
Vietnam	23,394,139
Western Samoa	6,907
East Asia Regional	872,533
D. Africa	7,119,148
Angola	188
Algeria	196,525
Benin (formerly Dahomey)	19,390
Botswana	65,625
Burundi	13,891
Cameroon	45,879
Cape Verde	12,735
Central African Empire	11,565
Chad	42,281
Congo, People's Republic of the	7,732
Ethiopia	642,573
Gabon	13,726
Gambia, The	11,698
Ghana	335,125
Guinea	126,656
Guinea-Bissau	3,583
Ivory Coast	42,151
Kenya	226,115
Lesotho	35,868
Liberia	277,410
Libya	230,118
Madagascar	17,655
Malawi	32,267
Mali, Republic of	93,746
Mauritania	31,599
Mauritius	16,402
Morocco	1,117,963
Mozambique	17,465
Niger	80,237
Nigeria	406,633
Rwanda	15,692
Sao Tome & Principe	300
Senegal	93,178
Seychelles	1,042
Sierra Leone	89,191
Somalia Republic	84,229
South Africa, Republic of	1,300
Southern Rhodesia	7,005
Sudan	136,482
Swaziland	12,293
Tanzania	194,979
Togo	33,938
Tunisia	910,551
Uganda	43,350
Upper Volta	65,373
Zaire	649,237
Zambia	41,325
Portuguese Territories	3,350
Central and West Africa Regional	143,562
East Africa Regional	26,801
Southern Africa Regional	109,164
Africa Regional	338,029
E. Europe	43,903,714
Albania	20,400
Austria	1,256,642
Belgium-Luxembourg	1,867,491
Czechoslovakia	193,001
Denmark	921,970
Finland	56,797
France	9,466,547
German Democratic Republic	800

Detail by region and country (fiscal years 1946-77)—Continued

E. Europe—Continued	
Germany (Federal Republic)	4,980,428
Berlin, West	131,881
Hungary	23,789
Iceland	83,144
Ireland	146,526
Italy	5,684,237
Malta	76,439
Netherlands	2,312,211
Norway	1,945,849
Poland	539,309
Portugal	784,061
Romania	10,126
Spain	2,991,630
Sweden	109,087
United Kingdom	8,779,808
U.S.S.R.	186,400
Yugoslavia	2,831,933
Europe Regional	833,787
F. Oceania	975,245
Australia	123,540
New Zealand	8,000
Papua New Guinea	900
Trust Territory of the Pacific Islands	824,181
Other Oceania	18,654
G. Canada	20,800
H. Interregional	20,272,882

NOTE.—Information as of September 30, 1977.

[1] Basic data (fiscal years 1946-77) taken from "U.S. Overseas Loans and Grants and Assistance from International Organizations," a publication of the Agency for International Development. See this publication for explanation and detail. Summary totals may differ slightly due to use of full numbers.

[2] Through September 30, 1977, repayments of principal and interest of both economic and military loans total $23,419,900. In addition, it is estimated that $862,100,000 will be repayed on AID loans in fiscal year 1977.

LEGISLATION TO CONTINUE PRICE CONTROLS ON DOMESTICALLY PRODUCED CRUDE OIL

(Mr. LUKEN asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. LUKEN. Mr. Speaker, today I am introducing legislation to continue price controls on domestically produced crude oil for 2 more years. Senators JACKSON and METZENBAUM are introducing similar legislation in the other House.

Last week, the President proposed to decontrol the price of oil and to establish a windfall profits tax. The revenues from the windfall profits tax are supposed to be put into a fund to improve programs for solar energy development, mass transit and conservation among low-income residents.

I have no disagreement with the administration's desire to reduce consumption of oil and thereby reduce our dependence on foreign oil supplies. However, decontrol of oil prices is not the answer. By the administration's own estimates, we will experience only 200,000 barrels per day in increased production from full decontrol. This is an unacceptable burden in light of the price increase that all consumers will have to pay. It is estimated that the total first year increase to the consumer will be approximately $4 billion. Senator JACKSON has indicated that the cost per gallon will increase about 10 cents per gallon to the consumer by 1981. The possibility is that when coupled with recent OPEC price increases, the 10-cent figure may be on the low side of the spectrum.

Since it is expected that production will not increase substantially with oil price decontrol, the only other justification that I can see is that the price increase will provide consumers with an incentive to conserve oil. This is an inaccurate assumption at best. We must all remember the dramatic price increases this country has witnessed during the past 5 years. Increases of much more than 10 cents per gallon, that did nothing to deter consumption of gasoline. Quite the opposite has happened, in the past 5 years we have witnessed record levels of consumption by the American consumer. We must conclude that this increase in cost will have little effect on the consumption patterns of oil by this country.

I do believe that if we are to decontrol oil prices we must have a strong and effective windfall profits tax plan in place first. The President has not tied decontrol to his proposed tax plan. There is a great deal of feeling in the Senate, feeling that I share, that this already weak windfall profits tax plan will not emerge intact from the Senate Finance Committee. What we may well end up seeing is a "plow-back" proposal that will just provide more money to the large oil companies at the expense of the consumer. I fully endorse the concept that we should maintain controls on domestically produced crude oil, until the Congress has had the opportunity to implement a windfall profits tax that will provide some benefit to someone else other than the major oil companies.

It is apparent to me that we will not see an increase in supply nor a decrease in consumption under the President's proposal. I think you may still find some merit to the plan if the revenues from the windfall profit's tax would have an effect in other areas of energy usage. However, the dollar figures the administration expects from the tax will have little or no effect in other vital areas of energy usage. In the first year the administration expects to realize $1.6 billion and in the second year we should see $4.6 billion. When we consider that this money will be spent on mass transit, energy conservation for low and fixed income citizens and further solar energy development, we must conclude that revenues will do little in any of these three areas when considered by itself. Certainly, a total of $6.4 billion spread out across the Nation will have little impact in improving the mass transit picture in this country.

In these inflationary times, it is wrong to place additional and unnecessary burdens on the consumer. What we are faced with is a decontrol plan that will do little to deter consumption or improve supply of domestically produced crude oil. The accompanying windfall profits tax has little chance of emerging intact. The far greater probability is that we will see additional money, over and above what the administration recommends, going to the major oil companies with no improvement in our energy situation. Even if the windfall profits tax did emerge intact, it would have little effect on the problems it is designed to help solve. I can see no merit in rewarding the oil companies for something that will not happen.

I look forward to receiving the support of many Members of the House. I have already been joined in this effort by our colleague from Ohio, Mr. MOTTL and our colleague from New York, Mr. WEISS.

INTRODUCTION OF BILL ENTITLED "NUCLEAR REACTOR MORATORIUM AND WASTE DISPOSAL PROHIBITION ACT"

(Ms. OAKAR asked and was given permission to address the House for 1 minute and to revise and extend her remarks.)

Ms. OAKAR. Mr. Speaker, today, I am introducing a bill entitled the "Nuclear Reactor Moratorium and Waste Disposal Prohibition Act." The bill has two primary functions: it would suspend the licensing of nuclear fission powerplants, pending an in-depth study by the Office of Technology Assessment, second, it would prohibit the location of nuclear waste disposal sites within or near densely populated areas.

More specifically, this legislation would prevent the Nuclear Regulatory Commission from licensing or renewing the licensing of nuclear fission powerplants, until such time that the Office of Technology Assistance completes a comprehensive study on the operational safety of such plants. The rationale for such action is simple, logical and mandatory. As early as 1958, there have been documented reports of nuclear accidents. The Three Mile Island incident clearly accented and highlighted the potential hazards of nuclear radiation, however, the peril of nuclear energy has long been our bedfellow. My legislation addresses the problem of the absence of applied safety standard criteria for nuclear fission powerplants and purports to do what must be done to provide individual and national safety and security.

Furthermore, this legislation would prohibit the Department of Energy from building or constructing a nuclear disposal site within or near any densely populated area. GAO completed a report in September 1977 entitled, "Nuclear Energy's Dilemma: Disposing of Hazardous Radioactive Waste Safely." The report spells out in clear and simple English that there is a definitive lack of demonstrated technologies for the safe disposal of existing commercial and defense high level wastes. The Department of Energy has seemingly refused to heed the documented, dangerous uncertainties associated with the safe and permanent disposal of radioactive nuclear waste. The blatant denial and bold refusal by the Department of Energy to look at and realize the facts of this report, prompts me to urge strong legislation which will mandate that nuclear waste disposal sites in highly populated areas be prohibited.

FREEDOM AND FOREIGN POLICY *

by Donald M. Fraser

Jimmy Carter took office with a commitment to infuse American foreign policy with a deeper concern for human rights. As often happens with campaign promises, however, the fulfillment of this commitment may prove difficult.

Some of the difficulty will be created by the practitioners of realpolitik who see a tough, threatening world that must be dealt with in kind and for whom a concern about human rights is at best misguided idealism, and at worst a return to Wilsonian preaching about democracy.

Others will make the oft-heard argument that the poor, developing nations face such severe problems that they cannot afford the luxury of Western-style democracy. Still others will point to the overriding American interest in security issues as incompatible with a high priority for human rights. Finally, there will be the traditional State Department outlook, concentrating on maintaining good relations with other countries. For these traditionalists, encumbering diplomatic intercourse with human rights issues is not only abrasive and unwelcome, but an unwarranted intrusion upon the affairs of other nations.

Despite these difficulties, I believe that Carter can not only make good on his commitment, but that American interests will be advanced by doing so.

There is a worldwide growing abuse of human rights, with violations of international standards so widespread that we are, indeed, facing a global human rights crisis. The causes are not hard to find. Communist governments based on mass, highly ideological movements pay lip service to human rights, but maintain tight control. In the newly independent nations of Africa, single-party dominance has been accompanied by constraints on the political activities of other parties and organizations. In Latin America, increasing polarization between the right and the left has led to higher levels of violence, with rightist governments sanctioning torture and killing. In some countries, regression in the observance of human rights is occurring as rulers seek to perpetuate their power. In other countries, tensions arising from racial, religious, or linguistic differences often lead to increasing repression on the part of the government.

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*Reprinted by permission from Foreign Policy, no. 26, spring 1977: 140–156.

Nonetheless, societies cannot long be governed peacefully in the absence of mutual respect among citizens and between citizens and their government. Just as the golden rule expresses a basic code of behavior found in varying forms in most societies of the world (and in most religions), the principles embraced in the Universal Declaration of Human Rights are widely shared throughout the world as the rules that should govern relations between governments and the governed. Rarely is it argued that the deprivation of such rights is a desirable goal, even though such deprivation may be accepted as a means to an end.

Serving U.S. Interests

Thus an American foreign policy that seeks a gradual evolution toward a peaceful international system must stress the importance of the protection of human rights as a foundation for such a system. Such an emphasis also makes us credible and consistent with our own principles.

The doubters will concede this, but will argue that we can do little to influence what happens in other countries and that we may risk other important U.S. interests. This line of thought has dominated U.S. policy for the past decade, but overlays a deeper concern—that because democracy is too fragile and unstable in most developing societies, and since the militant forces of the far left get assistance from the Soviet Union, Cuba, or China, unless we provide aid to the alternative governments, which are usually of the right, we lose by default in the worldwide struggle for power and influence. This view was implicit in the remark by former Treasury Secretary Simon in an interview broadcast on radio, in which he said flatly that the Pinochet regime in Chile was a big improvement over the Allende regime. It apparently mattered little to him that a long tradition of constitutional government was destroyed when the coup came, and that Chile has been one of the most consistent violators of basic human rights ever since.

The problem with this view is that the policies it has spawned are not working very well, and U.S. interests are not being served.

During the last decade the number of democratic governments has been declining. In a few cases the United States bears some responsibility, and in many more the United States has been in the background, ready to continue aid to governments that have seized power illegally. Caught in the middle of the increasing polarization between the far left and the authoritarian right are the large number of people who want to live in a democratically-run nation. They find themselves without support anywhere, and often are drawn to struggles initiated by the far left, which cloaks its ideology in democratic rhetoric, because joining forces with them may seem to be the only choice open to those who oppose rightist regimes. It is important to remember that the far left often strives to produce a heavy-handed rightist regime as the first step in building a mass movement upon which they hope one day to seize power.

Rightist regimes are not likely to be durable, since they cannot often build and retain the mass support needed to stay in power. In the meantime, the United States finds itself identified with these regimes and their abuses. The cost to the United States is a loss of respect among democratic forces abroad, and the growing disillusionment of the American public.

An important question is whether or not

we should permit the Communist countries to write the agenda for action by the United States. It is increasingly doubtful that the competition for influence in other nations (via involvement in their internal struggles) is as important as it once seemed to be. We have increasing evidence that nations chart their own courses, regardless of past support or friendship, although common ideology often generates common perspectives. Even these give way to nationalistic concerns, however.

It would be far better for the United States to write its own agenda. We should actively support democratic regimes, and deny close support for coercive or authoritarian regimes either of the left or the right, absent compelling considerations to the contrary. Within our limited capacity to do so, we should encourage increased observance of human rights in all societies. This would enable us to chart a new foreign policy consistent with our values.

Yet we need to avoid moralistic impulses impelling us into direct involvement in the affairs of other societies, as this may be destructive both of their welfare and ours. I would place Vietnam in such a category. Although the justification for intervention there was broader than the simple defense of freedom or democracy, those moral impulses did play an important role in justifying and sustaining our early intervention in Indochina.

We must also take care that we do not impose U.S. values in raising the issues of human rights. We need to work with international standards for human rights, which have a broad base of support. The document that stands first among the many international conventions and declarations dealing with human rights is the Universal Declaration of Human Rights adopted a quarter of a century ago in the General Assembly of the United Nations. There were no votes in opposition, although some nations abstained. As a declaration it did not require ratification by member nations, but it has had such wide acceptance that some legal experts give it the force of international law.

The Universal Declaration of Human Rights covers many kinds of rights, social as well as political. Some are more widely accepted than others. Others are far less likely to be achieved in the short term. Still others may require governmental action quite beyond the means of a particular government.

So we must narrow our focus to what is achievable. We should begin with a more active defense of those rights that enjoy the widest international support.

Grievous Violations

Two kinds of human rights violations especially merit our concern. The most grievous violations are those that violate the integrity of the person—the use of torture, arbitrary killing, and the practice of arresting and detaining persons for extended periods of time without charges or a trial. Few countries will admit to these violations and none will defend them. The second category covers a much wider range of rights, and refers to any retreat from a more advanced stage of human rights observance to a lesser one. Any such backsliding should be of concern to the world community. Positive trends, such as in Portugal, deserve encouragement, and disappointing reversals deserve more than a polite expression of regret. Moreover, turning back the clock on broader human rights is often a precursor to the renewed violation of the more fundamental rights involving the integrity of the person.

When confronted by grievous human rights violations in another country, our first step should be to dissociate ourselves from any appearance of support for the offending government by cutting off military aid. Military aid adds to the power and stature of a recipient government, but seldom improves the lives of the people.

Carter has before him military aid requests for fiscal year 1978. In evaluating these requests he should give careful attention to the status of human rights in the nations requesting military aid. Section 502B of the Foreign Assistance Act prohibits military aid to governments engaged in a consistent pattern of gross violations of human rights unless there are extraordinary circumstances justifying such assistance.

During the first months of the new administration, the State Department should inform those governments committing particularly serious violations that the level of military aid for fiscal year 1978 is likely to be adversely affected unless there are some significant and fundamental improvements in the observance of human rights. Simply releasing some political prisoners, for instance, while maintaining the same laws and practices that provide the basis for new detentions would not suffice. If military aid is reduced, the governments affected should be informed of the reasons for the reductions and the likelihood of complete elimination of military assistance should such violations continue.

A continuous review of the human rights situation in countries receiving military aid should be made; if the situation deteriorates in a particular country or a consistent pattern of gross violations continues, the State Department should consider reducing the amount of funds to be obligated to that country.

The use of Section 502B should not be confined to cutting military aid. I also believe that it should be viewed as requiring the United States to avoid giving assistance that could be used to maintain internal security in countries with serious human rights violations.

The United States should pay special attention to the fate accorded requests by international and nongovernmental organizations to obtain information about the status of human rights in a particular country as well as to the response of governments to the findings of such organizations. *Refusal by a government to grant an international organization permission to make a field visit* *should establish a prima facie case in favor of terminating security assistance.*

Whether or not economic aid ought to be terminated because of human rights violations is a far more complicated issue. Some aid is clearly humanitarian and reaches the people who need it. Other economic aid may be directly supportive of a repressive government and only indirectly benefit the people. There is a difference, too, between finishing a partially completed project and starting a new one. With the limited amount of economic aid we have to dispense, governments with a poor track record on human rights should expect that record to weigh importantly in the allocation of new aid commitments.

Food aid deserves a special comment. Frequently, concessional loans to another country to buy food does little more than give direct support to that government's foreign exchange position. Careful judgment should be exercised before granting such loans to oppressive governments. Donations of food for humanitarian purposes stands on a different footing and ordinarily should continue.

A particular problem is created when a reasonably legitimate government is illegally displaced by another, accompanied by increased violations of human rights. Because of the violence such coups do to the principle of constitutionalism and the rule of law, and because of the need to encourage orderly, peaceful transfers of power, the United States should adopt a flat policy of withholding supportive economic and military aid from such governments for a period of time.

Military alliances add another dimension to the problem. Some military alliances are more important to our security than others. Some provide bases for U.S. forces. Some involve the maintenance of sizable U.S. forces on the soil of the ally.

No single prescription can be written to give force to a policy of deeper concern for human rights. But certain observations can be made about the choices open to the United States. The most obvious option is to let the offending country know that human rights violations will cost them something in their relationship with the United States. It may be a reduction in aid for a period, protests channeled through international institutions, a narrowing of access by U.S. business enterprises, removal of some forces, or a combination of these. Where feasible, the steps taken by the United States should apply steadily increasing pressure until the message about human rights gets through to the other government.

The U.S. response in the past has been modest and largely ineffective. Quiet diplomatic representations have been accompanied by continued military assistance, thus clearly letting the offending nation know that they can safely overlook our protests. These representations have often been expressed with the warning that continued violations will cause an adverse reaction by the Congress; they are rarely expressed as based on the views of the executive branch itself.

Hard Questions

Ultimately, however, the hard questions must be faced. How well and for how long are U.S. interests served by military alliances with governments that are guilty of a continued pattern of gross violations of human rights? We are faced with this issue today in both Korea and the Philippines.

The United States, under a mutual security treaty, maintains over 40,000 troops in South Korea. The justification for these U.S. troops is twofold. First, it is argued that Korea is essential for the defense of Japan. Japan is very important to the United States. It has been thought that a shift in political control over the southern half of the Korean peninsula could significantly increase the military danger to Japan. Upon closer examination, however, an invasion of Japan from a Korea controlled by the Communist North appears unlikely. Also, Japan faces military forces in mainland China and the Soviet Union much larger than those of North Korea.

The second argument is that we are defending a bit of freedom; that South Korea is part of the "free world" and its loss would represent a retreat on the part of the West. However, we are not defending freedom when we help to preserve a South Korean government that has, over the last four years, systematically abrogated the basic freedoms of the South Korean people.

Meanwhile, we continue to run an inordinate risk that trouble may break out on the Korean peninsula under circumstances that will make U.S. public support for active U.S. involvement doubtful. The steady erosion of human rights in Korea may well undermine the solidarity of the people of South Korea against the Communist government of North Korea. This is a real danger as the younger people who didn't personally experience the North Korean invasion measure the system that oppresses them against the inexperienced Communist menace. An incident in the South might be seized upon by the North Koreans as a pretext to move South. If we withdraw at that time, because of public disgust in the United States at the thought of another war involving a dictator with whom we are unfortunately entangled, the result would be shattering to the Japanese. They would see this as evidence that U.S. defense commitments are no longer dependable.

I believe that if the South Korean government persists in its present course, the United States must be prepared to disengage from South Korea carefully and in full consultation with Japan on a step-by-step basis. President Park's argument, that the present restrictions on the rights of the Korean people are necessary in face of the threats from the North, lacks credibility. The threat from the North was far greater during the 1960s, when greater freedom was enjoyed by the South Korean people. If we are forced to depart because the South Korean government continues to severely restrict human rights, we should give South Korea enough additional arms so that it can defend itself, and offer Japan additional U.S. forces. On the other hand, if a major shift occurs in South Korea toward a fuller observance of human rights, the maintenance of U.S. forces in South Korea would be thoroughly compatible with a policy of aiding democratic governments facing direct threats to their security.

The Philippines is another important case. The present government rules under martial law. While often characterized as a less harsh dictatorship than most, recent evidence points to widespread torture. Political opponents have been jailed, and a free press no longer exists.

The United States has two major bases in the Philippines, Clark Air Force Base and the Naval Base at Subic Bay. The Ford administration argued that both of these bases were essential, and negotiations for continuing U.S. rights to the bases are already underway. If the United States is to continue to use these bases, despite the conditions in the Philippines, a more businesslike rental arrangement might enable the United States to dissociate itself from the violation of human rights. The need for these bases, however, should be studied, because a reasoned argument can be made that they are not important to U.S. security. Moreover, the continued presence of U.S. bases in the Philippines may not be consistent with the desire of the nations of that area to move toward a nonaligned posture.

Clearly, the issue of human rights cannot be isolated from the issues of security, development, access to goods, and other considerations. The upgrading of the human rights factor in our foreign policy inevitably draws us into a discussion of the broader objectives of our policies, including the thoroughly legitimate question of how much we can expect to accomplish by taking action in response to serious human rights violations.

In some cases it may well turn out that

we will have to swallow our concern and maintain existing policies because other considerations are so compelling. Or we may well conclude that no matter what we do our actions will have little or no impact on the offending government's conduct.

Influencing the behavior of Communist countries, at least in the short run, is difficult. Nevertheless, sometimes U.S. policies have some effect. Congressional and executive branch pressure succeeded in temporarily expanding emigration for Soviet Jews. But enacting the Jackson-Vanik amendment with its strictures both on most-favored nation treatment and on access to U.S. credits contributed to the Soviet government's decision to tighten restrictions on emigration.

The continued utilization of Radio Liberty and Radio Free Europe to introduce feedback into the Warsaw Pact nations may be of only modest value in the short run, but in the long run they may encourage leavening of those societies. The use of cultural exchanges pursued on a realistic basis can aid in the leavening process. The recent Final Act of the Helsinki Conference has committed the Eastern European countries to observe certain human rights set forth in the "third basket." Their full observance should be pressed by the Western nations.

In implementing the Helsinki act, we must also look at our own performance, particularly in relation to our visa policy. Under the McCarran Act, the United States has often refused entry for visits into the United States to persons who are members of the Communist party of their country.[1] Such a policy is inconsistent with the spirit of the Final Act of the Helsinki Conference and often is harmful to our interests. The executive branch and Congress should work together to amend this law.

We should also be reasonably consistent in our policies. Nothing undermines the credibility of concern about human rights more quickly than the double standard often found in the positions of both the left and the right. A selective concern about human rights moves us backward. It is seen merely as ammunition to fight ideological battles rather than as a commitment to basic decency.

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[1] *See Richard Holbrooke, "A Little Visa Problem,"* FOREIGN POLICY 21.

The oft-used phrase "the free world" contains such a selective concern. When the free world includes nations that are engaged in massive, continuing violations of basic human rights, the phrase can only be seen as an ideological weapon.

A new administration committed to a higher priority for human rights can weave into the strands of policy a persistent concern about how people are treated by governments. It can do so in a way that will gradually win us the respect of people throughout the world. The administration can work with Congress to maximize diplomatic effectiveness. With a judicious understanding of what we are capable of achieving, we can nudge governments along the path to ever wider observance of human rights.

We should always acknowledge that other societies will be governed in a manner that they work out for themselves. Nevertheless we must insist on our right to refrain from *special supportive relations* as distinguished from diplomatic and trade relations.

Once we have withdrawn our support from a government, we should approach the human rights issue with caution. Most human rights violations are not capricious, but are the consequence of what a government perceives to be necessary to maintain power or to govern. In some cases, the governments may be correct in their assessment that a fuller enjoyment of human rights would destroy valid social objectives, including civil order.

The International Machinery

Another avenue open to the United States is the international machinery that exists for the protection of human rights. This includes the U.N. Commission on Human Rights, the Subcommission on Prevention of Discrimination and Protection of Minorities, and the Inter-American Commission on Human Rights of the Organization of American States (OAS). The Council of Europe (which does not include the United States) has the most advanced machinery of all, including a Court on Human Rights with authority to adjudicate human rights issues brought by individual citizens against their governments. The Inter-American Commission on Human Rights has done excellent work, but governments can and do ignore its requests for information and access to their countries, and its recommendations. Until recently the OAS General Assembly gave perfunctory attention to the commission's reports. The U.N. Commission on Human Rights has the poorest track record of all, caused at first by its refusal to accept individual complaints and its reliance instead on governments to file complaints. Of course they rarely did. In recent years the U.N. Commission has begun to accept complaints from individuals, but its procedures are so slow, and the unwillingness of governments to point the finger at one another so great, that thus far it has had little impact. A notable exception was the creation of a special committee to study and report on conditions in Chile. Its respected members produced a detailed report that had a noticeable impact on the willingness of other governments to censure Chile.

The United Nations has had more success in dealing with human rights issues in Southern Africa because of the worldwide dislike for minority white regimes. Even here, however, lack of enthusiasm for affirmative action by Western countries has hindered the United Nations in addressing these issues.

A major objective of a renewed interest in human rights by the United States should be the strengthening of this international machinery for the protection of human rights. The concerting of international

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opinion in defense of human rights is one of the most effective, noncoercive means open to induce useful responses from offending governments. Leadership by the United States in this field will be accepted only gradually by other nations because of their attitudes toward past U.S. policy.

We also have an obligation, as a member of the international community and party to the international conventions on refugees, to grant asylum to political dissidents.

Although the United States has granted asylum to refugees from oppressive regimes, the administration of this program has been uneven and unpredictable. In many cases, the United States has taken far fewer refugees than have other, much smaller Western countries. We need to develop a consistent, more evenhanded policy of granting asylum to refugees from countries with oppressive governments of both the left and the right.

Recent legislation now compels the U.S. representative to the Inter-American Development Bank and the African Development Bank to vote against loans to governments that are engaged in serious human rights violations unless the aid is directly benefiting needy people. The executive branch has been able to comply with this requirement and still make certain that loans were approved with the votes of other representatives. This legislation did not succeed in producing a commitment by the executive branch to actively lobby against loans that the U.S. representative is required to oppose.

The role of the international banks must also be examined with care. Despite the assertion by the executive branch that only economic questions, not political issues, shape loan policies, politics have entered heavily into the actions of these banks. Loan patterns appear to reflect the U.S. preference for certain regimes, some of which have been involved in massive violations of human rights. It is especially troublesome to Congress that international bank loans are used to counteract congressional action aimed at limiting U.S. aid.

Specific Steps

In addition to giving more active support for human rights in general, some specific steps should be taken:

The president should consider delivering a major foreign policy speech in which he places the human rights issues in their proper perspective, to educate both the public and the federal bureaucracy. He should point to the obligation of the United States, under the Charter of the United Nations, to promote the observance of human rights, and identify the means by which he proposes that we discharge that obligation.

In the White House, a commission on international human rights should be created, with a small membership of five or six persons, to make recommendations on ways that the United States can strengthen its efforts on behalf of human rights. In formulating its recommendations it should ascertain the overseas image of the United States on human rights issues, examine the quality of human rights reporting from the field, and review the impact of our aid programs on the observance of human rights. The commission should give special attention to coordinating human rights-foreign policy issues among the many federal agencies that are engaged in international activities. Aside from the Department of State, the Departments of Defense, Treasury, Commerce, Agriculture, and others have international responsibilities. The commission is not envisaged as a permanent agency; it is hoped that within a matter of months its work would be completed and the commission disbanded.

Within the State Department, it is vitally important that the senior level positions be filled with persons committed to the principle that human rights deserves priority consideration in the making of U.S. foreign policy. If this is done, human rights will be given far more favorable consideration at the lower levels. It is important, however, to strengthen the existing human rights bureaucracy. The position of human rights officers in each of the regional bureaus should be made a full-time position. Additional positions, to handle human rights questions, in the legal adviser's office should be considered. The coordinator for human rights and humanitarian affairs, a position recently established by Congress, should be filled by someone who is a vigorous and effective advocate of human rights.

Congress should proceed with the repeal of the Byrd Amendment if no progress is made in the talks on Rhodesia, and the Senate should ratify the Genocide Convention and then begin immediate study, with a view toward ratification, of the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social, and Cultural Rights.

The initiative taken by the Agency for International Development in the past year, to identify and undertake programs to assist the human rights effort, should be continued and strengthened. The aid legislation, with its current priorities on rural development, health, and education, should be amended to include a fourth category: training, in the United States, in building the institutions of government.

We should urge stronger U.N. programs to bring young graduates and government people to study in leading universities or for training with government agencies.

The role of nongovernmental organizations is so important in the human rights field that steps should be taken to maximize their potential without destroying their independence and autonomy. A national commission should be created to administer a modest amount of public funds in support of programs that strengthen the role of the private sector working in the human rights field. Such funding might provide for conferences on the subject of human rights, fellowships for human rights studies abroad, and studies of special human rights problems. It would function in a manner similar to the National Commission on the Arts and Humanities. One conference which should be funded either through this source or through the government directly is a U.N. seminar on human rights. Such seminars have been regularly held around the world, but the United States has thus far declined to serve as host for one.

The Carter administration has the opportunity to shift U.S. foreign policy significantly toward a more active concern for human rights. This opportunity comes at a time when the American public is openly disturbed about past U.S. policies and Congress has asserted a strong interest in human rights issues.

Human rights will, of course, be advanced by action on a number of fronts. We should increase our economic aid efforts overseas, since sheer poverty will often drown the human rights issue. We must also work actively to achieve a greater degree of equity in our economic relations with the Third World nations. A strong public commitment to the advancement of human rights will also be very important.

A new emphasis on human rights will open up many diplomatic opportunities. In recent years, Congress has struggled with a recalcitrant executive branch over this issue. When the executive branch failed to implement the legislative mandates on human rights the only recourse open to Congress was to act on specific situations. Congress will welcome a clear declaration of intent by the executive branch to stress human rights in its foreign policies, and will be ready to accept quiet diplomacy as the most effective way to give expression to the deep-seated desire of the American people that their government be devoted to furthering decency in the conduct of human affairs.

The Limits of Public Support*

By BURNS W. ROPER

ABSTRACT: Polls reveal that the American public's interest in foreign affairs remains consistently low. In only three of ten to twelve areas of government spending, polled since 1971, did the public feel that the United States was spending too much; of these, foreign aid—both economic and military—was an easy first.

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*Reprinted by permission from The Human Dimension of Foreign Policy: an American Perspective. Philadelphia, American Academy of Political and Social Science, 1979. pp. 40–45. (Annals, vol. 442, Mar. 1979.)

THE American public has had a *generalized* antigovernment spending attitude over many years. At the same time, a number of Roper surveys (as well as those of other organizations) have shown that, when it comes to *specific* government spending programs, the public is more inclined to think that we are spending *too little* on them than too much. Thus, the American public is in the somewhat anomalous position of favoring an overall decrease in government spending, but increases in spending for most major government programs.

Possibly the spirit of Proposition 13 will change the pattern that has persisted over the years. It has heightened the generalized antigovernment spending attitude. When a trend question about specific government programs is repeated, we shall know whether it has turned people in favor of reduced spending for specific governmental programs rather than increased spending.

Since 1971 we have periodically asked a question about government spending for various programs or problems, both domestic and international; for example, spending for education, welfare, the military, or foreign economic aid. In our latest reading, the public was inclined to feel we were spending too little rather than too much on eight of the twelve programs, was evenly divided between too little and too much on a ninth program, and was inclined to feel we were spending too much rather than too little on only three programs (Table 1).

Foreign aid was not only one of the three items that the public feels we are spending too much on, but it was an easy first as the item we are spending too much on. Seventeen times as many Americans (69%-4%) feel we are spending too much as feel we are spending too little on foreign aid; and, three and a half times as many (69%-19%) feel we are spending too much as feel we are spending the right amount. Thus, three times as many (69%-23%) feel we are spending too much as feel we are *not* spending too much.

All that can be said in a positive way about public attitudes towards foreign aid is that attitudes were not quite as negative at the end of last year as they were five years ago, when the ratio of too much foreign aid spending to too little was 38 to one.

In December this question will be updated, but it is unlikely that attitudes towards foreign aid spending will be significantly improved, in view of the seven year trend and in view of the more recent antigovernment spending implications of Proposition 13. A more likely expectation is that critical attitudes towards foreign aid spending—as well as other programs—will increase. In fact, a poll conducted in early October for *Time Magazine* by Yankelovich, Skelly and White suggests there has been no improvement. An exact comparison between the Yankelovich figures this October and our own figures of last December is not possible because of differences in methodology and sample composition. For example, our question has consistently been asked of a nationwide sample of people 18 and over, whereas Yankelovich's sample consisted of registered voters. His poll as reported in *Time* showed 72% of registered voters feeling there is too much government spending on foreign aid and only 4% thinking there is too little. While the difference between our 69% from last December and his 72% this October may not represent an actual increase in anti-foreign aid sentiment, it does at

TABLE 1

PUBLIC REACTION TO GOVERNMENT SPENDING FOR SPECIFIC PROGRAMS

Turning now to the business of the country—we are faced with many problems in this country, none of which can be solved easily, or inexpensively. I'm going to name some of these problems, and for each one I'd like you to tell me whether you think we're spending too much money on it, or too little money, or about the right amount. First, the space exploration program—are we spending too much, too little, or about the right amount on the space exploration program?

	Dec. 1977	Dec. 1976	Dec. 1975	Dec. 1974	Dec. 1973	Oct. 1971
Foreign aid:						
Too much	69%	67%	75%	73%	76%	69%
Too little	4%	3%	3%	4%	2%	4%
Welfare:						
Too much	58	59	53	49	48	52
Too little	15	13	17	19	18	18
The space exploration program:						
Too much	43	46	55	56	66	66
Too little	12	11	9	7	3	6
The military, armaments and defense:						
Too much	24	22	27	32	32	34
Too little	23	22	20	13	14	15
Solving the problems of the big cities:						
Too much	15	18	20	10	10	10
Too little	42	40	37	43	42	41
Improving and protecting the environment:						
Too much	12	12	13	11	15	5
Too little	49	50	48	49	45	56
Improving the nation's education system:						
Too much	9	10	8	8	9	9
Too little	54	48	49	46	44	44
Improving public transportation:						
Too much	7	10	8	7	7	*
Too little	45	42	45	47	54	*
Dealing with drug addiction:						
Too much	7	7	9	7	5	4
Too little	54	57	56	55	57	62
Increasing the nation's energy supply:						
Too much	7	7	7	7	4	*
Too little	57	59	55	52	66	*
Improving and protecting the nation's health:						
Too much	6	7	6	5	5	4
Too little	58	55	57	60	57	55
Halting the rising crime rate:						
Too much	5	5	7	5	5	4
Too little	65	71	64	66	62	61

* Not asked in 1971.

NOTE: Items are presented from largest "too much" percentage to smallest, not in order asked.

the very least suggest that there has not been any dramatic turnaround in public opinion since our last measurement.

In testimony before the Senate Foreign Relations Committee in September 1975, another pollster, Louis Harris, testified that public attitudes towards foreign aid were negative only with respect to military foreign aid; that the public actually was in favor of economic foreign aid. Two months later, to test this thesis, we asked a national sample two questions. The first asked was whether we were spending too much, the right amount, or not enough on foreign aid. The second, asked of those who said too much, was whether we should cut back on military aid only, on economic aid only, or on both. While a few more people thought military aid only should be cut than thought economic aid only should be cut, the difference was slight indeed. More significantly, nearly two-thirds of those who felt foreign aid spending should be cut felt that *both* economic *and* military aid should be cut (Table 2).

When those who felt that both kinds of aid should be cut are added to those who feel economic aid only should be cut, we find that 60% of the entire public thinks we are spending too much on foreign economic aid. Put another way, nearly 80% of those who think we are spending too much on foreign aid in general specifically identify economic aid as a kind of aid we are spending too much on.

It seems clear then that objections to foreign aid spending are not focused solely on arms aid.

In addition to finding out whether objections to foreign aid were focused on military aid, economic aid, or both, we asked a third question in which we gave people eight statements: four favorable to foreign aid, four critical of it. People were asked this question regardless of whether they had earlier said we were spending too much or too little on foreign aid and regardless of whether they criticized military aid or economic aid. People were asked to tell us whether they agreed or disagreed with each of the eight statements. While agree/disagree statements are

TABLE 2

PUBLIC REACTION TO SPENDING FOR FOREIGN AID

At the present time, do you think we are spending too much money on foreign aid to other countries, about the right amount, or that we are not spending enough on aid to foreign countries?

And if "too much"

Do you think we should cut back on *military* foreign aid only, or cut back on *economic* foreign aid only, or that we should cut back on *both* military *and* economic foreign aid?

Spending too much on foreign aid	77%
And should:	
Cut military only	13
Cut economic only	11
Cut both	49
Don't know	4
Spending about right amount	14
Not spending enough	2
Don't know	6

TABLE 3

PUBLIC REACTION TO SPENDING FOR FOREIGN ECONOMIC AID

Leaving aside military foreign aid, here are some things that have been said about our *economic* aid to foreign countries. (Card shown respondent) For each one, would you tell me if you basically agree or basically disagree? First, a lot of the economic aid we provide goes to the wrong countries. Do you basically agree or disagree with that?

	AGREE	DIS-AGREE	DON'T KNOW
We have problems of our own here at home and should spend the money here instead of overseas	74%	16	10
Most of the economic aid we provide never gets to the people who need it	70%	15	15
A lot of the economic aid we provide goes to the wrong countries	65%	20	15
Our foreign economic aid is an important factor in maintaining world peace	54%	28	18
Putting money into foreign aid is like pouring money into a bottomless hole	51%	36	13
It is important that we continue foreign economic aid even if there is a certain amount of waste and inefficiency in the program	45%	39	16
As long as we are better off than other countries, we should share our wealth with them	43%	42	16
The economic aid we provide has gained us valuable allies through the world	36%	48	16

NOTE: Statements are presented from largest "agree" percentage to smallest, not in order asked.

commonly used by pollsters, they produce a bias that must be taken into account in assessing the significance of the results to such questions. There is a tendency on the part of people to agree with a statement rather than to disagree with it—what is known as a "yea-say" effect. This yea-say effect is particularly pronounced where people do not have strong ingrained feelings.

The yea-say effect may be seen in our question about economic aid (Table 3). Four of the statements were favorable to economic aid and four were critical. Yet the public clearly agreed with six of the eight statements (all four negatives and two of the positives), was marginally inclined to agree with a seventh and disagreed with only one of the eight. There is no precisely defined discount value to apply to an agree percentage, but in my judgment, an agree/disagree ratio of three to two represents in reality an approximately even split in public sentiment. Higher than a three to two ratio is likely to be in fact what it appears to be—greater agreement than disagreement. Less than a three to two ratio is likely to represent in fact disagreement with the statement.

While this article is not intended as a treatise on how to evaluate research, it is necessary to appreciate this yea-say bias in order to understand people's reasons for being opposed to economic foreign aid. As I evaluate the results to this question, I would say there are four dominant reasons for the public's opposition to economic foreign aid. One is clearly having problems of our own and the belief that charity begins at home. Another is a feeling that the aid never trickles down to the truly needy, but gets siphoned off by the big shots, fat cats and dictators who are not in need of it. Closely related is the belief that a lot of aid is sent to the wrong countries.

It is clear from looking at Table 3 that these are the three statements that get the strongest agreement. The fourth major reason, in my judgment, that most people are opposed to economic foreign aid requires taking into account the yea-say bias. The data imply that there is a strong disbelief that economic aid has created valuable allies for us. To be sure, less than half of the public disagreed with the statement "the economic aid we provide has gained us valuable allies throughout the world." But when correction for the yea-say bias is taken into account, the 48% who disagree with that statement seems to me approximately as significant as the 65%, 70% and 74% who agree with the previously cited reasons. In fact, the rather pale endorsement of the idea that our foreign economic aid has been an important factor in maintaining world peace confirms, it seems to me, the disbelief that our aid has created allies, and is a major reason for opposing foreign aid.

These data on economic versus military foreign aid and on the pros and cons of economic foreign aid are, of course, now three years old. In the intervening three years, attitudes towards military versus economic foreign aid may have changed; and the reasons for people's feelings about economic foreign aid may also have changed. Since, however, people's opinions as to whether we are spending too much, about the right amount, or too little on foreign aid have remained rather constant in the intervening years, it seems reasonable to assume that the reasons for these opinions have probably also remained rather constant.

To develop a public opinion that is positive towards foreign aid would require demonstrating that foreign aid, in addition to what it does for "them," does more for "us" than if the same money were spent at home. It would also require demonstration that the money does get to the right people in the right countries and, further, demonstration that it has gained us valuable allies.

But even if a compelling case can be made on these various counts, there will be still another hurdle to creating favorable attitudes towards foreign aid. That hurdle is to gain the American public's attention in order to get across this compelling story. Our surveys have consistently shown that the public's interest in foreign affairs is at a comparatively low level relative to domestic concerns. Given United States involvement in a war or the imminent threat of war, interest in foreign affairs can become overriding. But given the kind of "peace" we have had since the end of the Vietnam conflict, foreign affairs considerations are of a low order of interest.

In fact I think a case can be made that while our foreign aid program has undoubtedly been reduced, relative to GNP and the overall federal budget, because of negative public attitudes towards it, at the same time it has probably managed to survive in reduced form because of the public apathy about foreign affairs. Given the lopsided negative sentiment about foreign aid, the program would probably have been killed long ago if foreign affairs and hence foreign aid were a burning issue to the American public.

GLOBAL EVANGELISM RIDES AGAIN: HOW TO PROTECT HUMAN RIGHTS WITHOUT REALLY TRYING (EXCERPTS)* ERNST B. HAAS

The Administration seeks to protect and promote human rights in a very heterogeneous world, a world of rich and poor, socialist and capitalist, Hindu, Muslim, Christian and atheist, pluralist and totalitarian. A right can be considered generally accepted if governments commit themselves to its observation in a solemn, legally binding fashion. One evidence of such a commitment is the act of ratifying the main conventions in which these rights are defined. A right can be considered internationally accepted if a large majority of states have ratified the text.

We have the needed data for 140 states.[10] We have divided them into groups so as to capture two dimensions of interest: the place of civil and political rights of individuals in the national institutional order and commitment to policies involving the economic, social, and cultural rights applicable to groups and to individuals. The classification of commitment is based on generally available data concerning each of these countries.

Our first classification is based on the question "how open are the political institutions?" Polities are classified as competitive, semi-competitive, non-competitive, and totalitarian. (1) In a *competitive* polity, groups and individuals are able to dissent from official policy, and may freely organize to do so as long as they use peaceful and nonviolent means. They may exercise freely their right to speak, write, listen, organize, advocate, and vote. Competitive polities conduct regular and honest elections; government changes hands peacefully as a result of such elections. Dissidents are not repressed. (2) In a *semi-competitive* polity, dissidents are permitted to express themselves *within* a circle of oligarchic rulers, and may not suffer repression even outside such a circle as long as they do not push too hard and are unlikely to prevail. Some political competition is allowed by means of manipulated and supervised debate and voting within official parties, though unsupervised rival parties are not allowed. Elections occur, but they are usually rigged and do not always follow any constitutional schedule. Cooptation is widely practiced by the oligarchy in control of the state. Government changes hands often as a result of an extra-constitutional coup. In other instances supreme power is exercised by a hereditary ruler and his supporters in the bureaucracy. The armed forces, as an institution, sometimes preside over a semi-competitive polity, again often in collaboration with civilian allies. Repression is practiced selectively. (3) A *non-competitive* polity, however, practices indiscriminate repression. No scope is allowed to any dissident forces. All political power is monopolized by the ruler or the single party. Elections are rituals of popular acclamation, not choices among competitors for office. However, if groups and individuals simply lead their private lives and do not challenge the powers that be they are left to themselves. (4) In a *totalitarian* polity, by contrast, enforced participation in the official program is the norm. Not only is there no tolerance for dissidents, but everybody is expected to join organizations and participate in whatever is decreed to be the policy. Opting out of the collective effort by way of withdrawal into privatism is not possible. Repression is fully institutionalized through appropriate police arrangements and the legal code. Changes of government occur as a result of arrangements within the top ranks of the ruling party; no totalitarian regime has yet been overthrown as a result of a coup, though non-competitive regimes often suffer this fate.

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[10] The following countries were excluded from the survey: Papua-New Guinea, Tonga, Qatar, Bahrein, Maldives, Djibouti, Comoros, Solomon Islands, Belize, St. Tomé and Principe, Rhodesia, Cape Verde Islands, Seychelles, Angola, Samoa, Nauru. In some cases descriptive data were not available, and in others independence was so recent as not to allow time for the ratification of treaties.

*Reprinted by permission. Haas, Ernest B. Global Evangelism Rides Again: How to Protect Human Rights Without Really Trying. Berkeley, Calif., Institute of International Studies, University of California, 1978, pp. 16–17, 30–40. (Policy Papers in International Affairs, No. 5.)

The United States faces a world in which just over one-third of mankind lives in competitive polities. Promoting human rights implies a willingness, in principle, to work on improving the lot of the remaining two-thirds. The task looks like this:

Table 1

INCIDENCE OF REPRESSIVE POLITICAL INSTITUTIONS

Political Institutions	Percent of World Population (1973)	Number of States (1977)
Competitive	36%	41
Semi-competitive	17	31
Non-competitive	13	48
Totalitarian	34	20

II. AMERICAN FOREIGN POLICY AND HUMAN RIGHTS

Our survey of the global scene, the meaning of human rights, and the frail commitment to their promotion has thrown doubt on the *feasibility* of a consistent policy on the part of the United States. To work energetically and consistently for the perfection of human rights in two-thirds of the world's countries implies a willingness to mount another crusade for democracy. Our former crusades failed to capture and secure the Holy Sepulchre. The costs of trying, despite the well-known penchant of the American people for a moral foreign policy true to the historical mission of American nationalism, have been severe, and the recurring waves of disenchantment have caused periodic agonizing reappraisals of domestic policy priorities. They also cost Lyndon Johnson the presidency.

The argument now turns to a different point. I suggest that an energetic policy of promoting human rights abroad *is not a moral policy*. I shall argue that most of the means available for the promotion of human rights are blunt and undiscriminating and that they may do more harm than good. I shall also argue that among the various and equally moral objectives of American foreign policy, the protection of human rights cannot be given priority without seriously sacrificing some other end. The measure of morality is not the loud espousal of strongly held beliefs, but the principle of proportionality between ends and means, the principle of weighing competing but legitimate ends and choosing the most moral among them for priority attention, while doing the least harm to nations, groups, and individuals who may get in the way.

WHAT IS THE CARTER FOREIGN POLICY?

"This administration has excellent objectives, corresponding to admirable intentions. But foreign policy is not a matter of objectives; it is a matter of strategy—the interconnection between an overall conception, a set of objectives, and specific policies."[18] That is the crux of the matter. The objectives include the continuation of détente with the Soviet Union, strategic arms control and nuclear non-proliferation, limiting the diffusion of conventional armaments, making progress toward a "new international economic order" favoring the developing countries by means of multilateral arrangements, eliminating white domination in Africa, making peace between Israel and the Arab states, *and promoting human rights*. The policies which constitute the means for attaining these objectives are the same as those practiced by any other administration: rewarding and offering incentives to your friends and allies, or treating them with benign neglect; persuading and threatening your enemies, or rewarding them for approved behavior. The way this is done remains constant: give or withhold foreign aid, raise or lower barriers to trade, promote or end "special relationships," establish or interrupt normal diplomatic contact, protest or praise the policies of others, either privately or in a splashy public forum.

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[18] Stanley Hoffmann, "The Hell of Good Intentions," *Foreign Policy* 29 (Winter 1977-78): 3.

The trouble is that the policies are only as good as the objectives they are supposed to serve, and the objectives are *not* mutually consistent unless they are ranked and ordered in terms of their importance to the United States. Ranking and ordering calls for an "overall conception," a generalized future state of affairs toward which these objectives are supposed to move the country and the world. Depending on what that conception is, détente might take priority over new economic agreements, or the new economic order might take priority over Africa and the Middle East. If human rights were to take first place, they would make the attainment of most of the other objectives quite impossible. But if they do not take first place, where do they fit in the scheme of things? Since the Carter Administration has no overall conception, it is impossible to tell. Quite rightly, Stanley Hoffmann entitles his analysis of this state of affairs as "the hell of good intentions."

How, then, does the Administration describe its human rights policy? "The Carter Administration," says the Department of State,

> has made an active concern for human rights throughout the world a central part of US foreign policy. . . . A positive policy offers hope to those whose rights have been denied. It also serves the national interest by reasserting American ideals as the foundation of our foreign policy, encouraging respect among nations for the rule of law in international affairs, and rebuilding domestic consensus in support of our foreign policy.[19]

Even though this statement does not make quite clear whether the national interest consists in creating respect for law abroad or appealing to a constituency at home, the rights of interest to the United States are those enshrined in "our historical documents" and in the major international texts reviewed above (none of which has been ratified by the United States to date). But more specifically they are:

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[19] U. S. Department of State, *Gist* (January 1978).

> Freedom from arbitrary arrest and imprisonment, torture, unfair trial, cruel and unusual punishment, and invasion of privacy; Rights to food, shelter, health care and education; and Freedom of thought, speech, assembly, religion, press, movement, and participation in government.[20]

In short, the United States is committed to the promotion of the rights of the individual enshrined in the U. S. Bill of Rights and to a few selected economic and social rights. How does this policy fit into the other objectives of the Administration?

> The US is seeking to integrate human rights considerations into its bilateral and multilateral relationships as a key element in decisionmaking. Other factors, including security and economic interests, continue to be important in defining our policy. We wish to develop a policy permitting a case-by-case approach to improve human rights situations in the most effective way possible. This policy, while concerned with progress on the full range of human rights, will continue to recognize differences among countries.[21]

Are the "other factors" more or less important than human rights? Does a "case-by-case" approach suggest that human rights will be addressed *only if* more important objectives are not jeopardized by doing so? Or does it mean that only cases involving our enemies will be taken up? What is the "most effective way?" Quiet diplomacy, the UN complaint procedure, or the Belgrade Conference on the Helsinki Treaties? How can the "full range" of human rights be covered if, as we saw, these rights are mutually contradictory and often conflict with established American law and practice? If we "recognize differences among countries," do we put pressure only on nations who already practice democracy or on those who do not? Only the actual record of the Administration in implementing these commitments can answer these questions.

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[20] *Ibid.*

[21] *Ibid.* Periodic comments by Secretary of State Cyrus Vance suggest that no consistent and systematic campaign is intended, much to the chagrin of some domestic champions of international human rights. On April 30, 1977, Vance said that "a sure formula for defeat of our goals would be a rigid, hubristic attempt to impose our values on others. . . . A doctrinaire plan of action would be as damaging as indifference" (*New York Times*, May 18, 1977, p. 14). Early in February 1978 Vance spoke of "tentative results" achieved by the policy in easing repression in some countries and reaffirmed that human rights, because of the Carter Administration's emphasis, has become "a major theme of discussion" in international organizations (*San Francisco Chronicle*, February 5, 1978, p. 16). At the same time, stories from Washington suggest that the Administration is tired of the campaign and wishes to downgrade it, and reported to Congress very reluctantly on the extent of human rights violations among countries receiving U. S. aid (*New York Times*, February 10, 1978, p. A14).

METHODS OF INFLUENCE AND THEIR EFFECTIVENESS

Supposing that the Administration were serious about systematically working for the improvement of human rights everywhere in the world, what methods of influencing unwilling foreign governments does it have at its disposal? The methods include private remonstrances, public denunciations, appeals to international organizations, and coercive measures—cutting aid, restricting trade and clandestine or overt military force. All have been used in the past, with very mixed results.

Making unpublicized protests against specific practices is the most commonly used method. It is also the method preferred by professional diplomats and by Henry Kissinger. Washington, if no grandiloquent statement of principled intention is first announced, has the option of when and where to protest. Since the lack of publicity means just that, we have no complete public record of such diplomatic protests. This protects the protesting officials against charges of failure and saves the target government the embarrassment of having to acknowledge American intervention and, possibly, compliance with it. It is said, for instance, that such protests brought about the emigration of 35,000 Jews from the Soviet Union, a figure which was cut sharply as soon as protests became public and were linked in the U. S. Senate with restrictions on trade with the Soviet Union. In any event, such protests have been recognized as a legitimate exercise of the law of humanitarian intervention for a long time. They have often led to the release from prison of individuals, the cessation of specific acts of persecution, and the granting of foreign asylum to political leaders opposing a given government. If the Carter Administration confined its policy to this method there would be no occasion to offer these comments. Making quiet protests is an act of commission free from the problems to be analyzed further.

Protests can also be made publicly, by "speaking out" as the Carter Administration is fond of doing. This can still be confined to a bilateral exchange: the offending government is made the subject of a remark in a speech or a press conference, or it is mentioned adversely in a report to Congress. Public protest, of course, can be accompanied by private remonstrances by the U. S. Ambassador in the offending country. This was done during 1977 in order to stop torture and illegal detention in South Korea, the Philippines, and Argentina, among others. The negative implications of this approach were clearly illustrated in the case of Panama: opponents of the Panama Canal treaties and political exiles from Panama made an issue over the repressive nature of the Torrijos government, while the Department of State then sought to soft-pedal the issue.

Going public can be done with even more splash by appealing to an international organization or other multilateral forum. One current example is the discussion of human rights in the Belgrade meetings reviewing the Helsinki agreements. Since more is at stake there than the relaxation of repression in Eastern Europe, American delegates had to decide to what extent they would harp on human rights violations. Their task was not made easier by the Soviet response which sought to link the introduction of the human rights issue with a revival of the Cold War.

Appeals to international organizations are subject to all the vagaries discussed above and raise the issue of the double standard on human rights questions. The United States has thus been singularly unsuccessful in getting the United Nations to include on its agenda human rights violations considered serious in Washington. It has been equally unsuccessful in deleting from the agenda situations not considered serious by American diplomats, such as the case of Israel. But things are somewhat different in the Organization of American States. Its Inter-American Commission on Human Rights is a body made up of independent experts. The United States has been able to support the work of the Commission in investigating and airing violations, and in putting the collective pressure of publicity on the offending government. This method brought results in the cases of Chile and the Dominican Republic; it did not work when applied to Cuba and Paraguay.

Coercive measures on behalf of human rights have rarely been used in the past, though they are prominently featured by the Carter Administration. The simplest way of applying coercive pressure is to cut or eliminate foreign aid. In the case of military aid, or government-sanctioned sales of military equipment (usually provided on credit), a foreign government highly dependent on such supplies may be forced to mend its ways, at least for a while. It is difficult to find striking examples of the successful application of this kind of pressure because the United States has never followed such a line for a sufficient length of time. Moreover, if the United States stops a sale, France, Britain, or West Germany can always jump into the opening, not to mention the Soviet Union. That happened when Washington stopped military aid to Ethiopia and South Africa. Cutting economic aid is still more difficult, because it is not the offending government which is punished, but its needy population. The method worked when, in 1948, Washington cut off aid to Holland to force the Dutch government to grant Indonesia the right of national self-determination. The Carter Administration has declared that it will *not* use economic aid as a means of pressure, though it has actually done so in Uganda, Ethiopia, and the Central African Empire.

Congress, in the enthusiasm of some of its members to use foreign aid as a lever for pushing human rights, discovered during 1977 that there has been a steady trend away from bilateral toward multilateral grants and loans. Economic aid is being given increasingly by the World Bank, the International Monetary Fund, the UN Development Program and such regional institutions as the Inter-American Development Bank. Can these institutions be used to coerce governments to stop violating human rights? In the past, the United States had on occasion justified its opposition to extending multilateral aid to Cuba on the grounds that such aid would abet the continued violation of human rights. The House of Representatives adopted legislation in 1977 which, had it been passed by the Senate, would have compelled U. S. delegates to aid-giving institutions to vote against economic projects aiding states in violation of human rights standards. The State Department opposed the legislation and President McNamara of the World Bank announced that U. S. contributions "tied" in such a fashion were unacceptable. Multilateral aid, in short, can be used as a method for promoting human rights only if a sufficient number of countries sides with the U. S. Moreover, to the extent that foreign lending is handled by private banks and corporations such assistance to economic development also escapes this form of leverage.

That leaves trade embargoes and armed force. The imposition of a trade embargo against Cuba simply drove that country more tightly into the Soviet embrace, without doing a thing for human rights. However, the banning of sugar imports from the Dominican Republic in 1961 did have the desired effect of temporarily stopping political repression in that country. Unfortunately for the Administration, there are few countries in the world as dependent as the Dominican Republic, and therefore as susceptible to this method of pressure. No country has ever used its armed forces to compel another to respect human rights *only*, though this objective has sometimes been included among other objectives when armed intervention was undertaken, as the United States did in 1965 in the Dominican Republic. The United States, along with all other industrialized countries, has resolutely refused to consider armed action to protect human rights in South Africa, though it observes the UN-ordered embargo on arms sales.[22] On the other hand, clandestine armed force has occasionally been used for, and against, governments involved in human rights controversies. Thus, CIA involvement was widely suspected in the installation of the repressive Greek military regime in 1966. CIA involvement in the overthrow of the Allende government is established, though it cannot be proven that the U. S. planned to install the extremely repressive Pinochet government instead. It is clear in both cases that clandestine force was used so as to result in violations of human rights. However, the U. S. also gave clandestine support to regimes using force to protect themselves *against* the repressive designs of their domestic opponents. This occurred in Venezuela during the 1960's and in Portugal in 1975.[23]

How effective have the methods been since the Carter Administration took office? Our account is necessarily incomplete, because we have no way of assessing the private protests which may have been launched, and it is confined to events during 1977. The Department of State says that "the Administration has undertaken diplomatic initiatives with many countries, urging improvement in human rights conditions. We seek to encourage and assist those governments that have taken forthright steps toward improving human rights."[24] There is no indication of what these measures of positive reinforcement and reward have been. On a bilateral basis, the Department notes that the reduction or halting of military aid is the main mode of action, while economic aid is to serve those who need it most.

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[22] Until the advent of the Carter Administration, the U. S. had not complied with the UN-ordered total trade embargo directed against Rhodesia. Neither had most other chrome-importing countries, including the Soviet Union.

[23] These practices highlight the conundrum of international human rights policies pursued by unilateral measures. In Chile, the Allende government was promoting the economic and social rights of the peasantry and the workers, *at the expense* of the rights of the middle classes. The CIA, in undoing the results of a democratic election, was also indirectly supporting the human rights of a segment of Chile's population. In Venezuela, support for the AD government had the result of protecting the civil and political rights of groups associated with the regime against the civil and political rights of the left-wing terrorists, who suffered torture and illegal detention (and who were trained and supported by Cuba). What does one do when intervention has to result in somebody's enjoying rights at someone else's expense?

[24] *Gist.*, The Administration sent to the Senate for ratification the two UN Covenants, the Genocide Convention, and the Convention on Racial Discrimination. President Carter also signed the American Convention.

Over fifty countries were singled out for public criticism by the United States during 1977. In a few cases the complaints took the form of statements by the President or the Secretary of State. In the case of the Eastern European countries the forum for denunciation was the Belgrade Conference. The bulk of the criticism was expressed in the two reports sent by the State Department to Congress in conformity with legislative provisions that military aid might be denied to violators of human rights. Twelve countries were subsequently mentioned as having improved their record by releasing some prisoners, permitting some dissidents to emigrate, or promising to hold elections some time in the future: Argentina, Haiti, Indonesia, the Philippines, Uruguay, South Korea, Paraguay, Yugoslavia, Brazil, Equador, Chile, and East Germany. In no case was it maintained that the overall repressive character of these regimes had been altered. Who among the violators suffered actual or threatened cuts in aid? Argentina, Ethiopia, Uruguay, Brazil, El Salvador, Guatemala, Nicaragua, Angola, Mozambique, Vietnam, Cuba, Cambodia, Laos, Uganda, and Chile were mentioned in various releases of the Department of State. The list is curious in many respects. Angola, Mozambique, Vietnam, Cuba, Cambodia, Laos, and Uganda were not receiving any aid in the first place, though negotiations for making them eligible were going forward in some instances. All the Latin American victims except Nicaragua announced their refusal to seek or accept U. S. aid before action was taken in Washington. Ethiopia's share of aid was eliminated for a variety of reasons having little to do with human rights.[25]

The Administration also moved on the multilateral front. U. S. delegate to the UN, Allard Lowenstein, sought to include Soviet persecution of dissidents on the agenda of the UN Commission on Human Rights and also talked about Uganda. Moreover, he said that for the first time in recent years the Commission's debate was more balanced because bloc voting was avoided. Encouraged perhaps by this evidence of an alleviation of the double standard,

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[25] This material was collected on the basis of all events reported in the *New York Times*. On March 7, 1977, Warren M. Christopher and Patricia Derian told the Senate Foreign Aid Subcommittee that cutting aid was not the best way to deal with human rights violations. Instead they urged that U. S. diplomatic personnel be given special training in human rights matters so as to be better able to use quiet diplomacy and friendly persuasion.

President Carter renewed the earlier American proposal for the creation of the office of a UN High Commissioner for Human Rights. He urged the issue of human rights in the Western Hemisphere in the meetings of the OAS and worked to increase the budget of the Inter-American Commission on Human Rights, while stressing American support of the Commission's investigation of repression in Chile. To complete the story, mention should be made of separate multilateral negotiations with South Africa and Rhodesia. A group of Western countries has been talking with South Africa about the future of Namibia; the talks were dominated by disagreement as to whether "the people" of Namibia or one of their liberation organizations—SWAPO—should exercise the right of self-determination. British-American mediation in the Rhodesian case was undercut by the conclusion of an agreement between the Smith Government and nationalist leaders in Rhodesia not connected with the armed liberation movements. The Administration sought to vest the right of self-determination in the guerrillas; many of the future Zimbabweans seemed to think otherwise.

What can we conclude from this record? There has been some marginal improvement in behavior on the part of a few countries. Nobody can tell how permanent that change may be, but past experience with similar waves of relaxation in repression strongly suggests that, unless a regime changes basically, people released from prison remain liable to rearrest. The skills of the torturer, though perhaps not used for a while, are not forgotten. No fundamental change in the global human rights picture can be discovered. Moreover, it has become very clear that neither multilateral discussion and censure nor the manipulation of foreign aid has been an effective means for persuading other governments. And that leaves us with quiet diplomacy and its occasional successes in alleviating the fate of single victims of repression. Such had been the situation before President Carter took office; it will be the situation when he leaves it. The question is: why is this so?

WHAT IS THE NATIONAL INTEREST? THE PROBLEM OF TRADE-OFFS

International politics is not like the politics of the American civil rights movement. There is no collective guilty conscience about past misdeeds. The suffering of individuals and groups elsewhere does not evoke a sustained and energetic response. There is no body of core values, no underlying acceptance of a clear norm which can guide and inspire those who fight for the elimination of discrimination and torture. There is all too much awareness that local conditions and local values differ and justify modes of governance repugnant to the American tradition. There is no central legislature which can pass civil rights legislation and no central police force to protect civil rights leaders or keep integrated schools open. There is no Supreme Court to hand down a *Brown* v. *Board of Education*. There are no voters to punish those who ignore human rights or reward those who promote them. And none of the international pronouncements and legal texts so far adopted goes any distance in the direction of creating such attitudes or institutions. Nor can they be expected to do so, given the realities of the world.

The paradoxes of making a moral choice among competing national interests are illustrated in seven cases. Each case raises the question: which interest must we give up in order to attain another, and by how much? ***Each case suggests that there is no clear, moral, consensual answer.***

1. Is the maintenance of a repressive but anti-communist regime committed to the economic betterment of its people more important than the protection of human rights? The case in point is Argentina. It proved impossible in Argentine politics to work simultaneously for the improvement of the working class, a stable price level, continued investment in the industrial sector, and the preservation of a competitive political system. The opposing forces of Argentine society were too strong and too antagonistic to accept any combination of these options, and when deflationary policies were chosen, portions of the Marxist Left unleashed a bloody civil war intended to introduce the dictatorship of the proletariat. The Right struck back in kind, and the current repressive regime represents some of its interests. If we put pressure on Argentina the Left will gain, and if it comes to power it will quickly suppress the human rights of its erstwhile opponents. If we leave Argentina alone, the Right may succeed in stimulating economic growth once more and thus, eventually, satisfy some of the economic demands of the working class. Human rights will be violated in either event.

2. Is the gradual transformation of a repressive but anti-communist regime, committed to the economic betterment of its people, more important than the protection of human rights? The case is Brazil. Brazil has taken longer and firmer strides into the modern era under the military regime in power since 1964 than in its entire history. During that period civil liberties have been curtailed and the working class has been denied gains in living standards. Unlike Argentina, however, Brazil never had a faltering tradition of demo-

cratic governance. A sudden reintroduction of civil and political freedom may force changes in the successful economic policies pursued by the dictators, because the people to be enfranchised may compel the choice of inflationary policies which would undo the gains of the last decade. Which is worse: continued poverty or the curtailment of individual freedom? Which makes more sense: stigmatizing the government of Brazil in public or quietly encouraging it to gradually relax repression?

3. Is the maintenance of a pre-modern regime, uninterested in women's rights or unemployment benefits for sheepherders, more important to the United States than urging that regime to become modern? The situation is typical of much of Asia—for instance, in Saudi Arabia. An insistence on the adoption of human rights considered consensual in the West implies a desire to impose one culture on another. Is it not more moral to permit the rulers of such a country to choose their own way into modernity? Or to reject it altogether? The rapid modernization of Saudi Arabia can be considered to be a national interest of the United States only if one wishes to make the world safe for multinational corporations and countervailing air power.

4. Is the support of a repressive regime which is selling us strategic commodities more important than the democratization of that regime? Consider Zaire. Its government is in the hands of a dictator whose control over his own huge country can only be maintained with the help of foreign troops. The citizens, to the extent that they are conscious of living in a place called Zaire, have never enjoyed any political or economic rights. A relaxation of repression would surely trigger various secessionist movements, no more committed to human rights than General Mobutu. In the meantime, Zaire sells the West various needed primary commodities, from which the bulk of the local population may eventually get some economic benefit. In such a setting, is it moral to punish the government for not observing human rights?

5. Which is better: holding out for individual freedoms, agreeing to the primacy of collective rights in the hope that this may lead to economic betterment, or doing nothing? Take the case of Algeria. Its socialist government does not allow political opposition and insists that one-party rule ensures the *collective* rights of national self-determination, racial equality, and state control over natural resources. It has also chosen economic policies which may eventually lead to a wealthier and healthier Algeria. Do we applaud the commit ment to collective rights which serves as a cover for oppressing the

individual, even though that commitment may lead to a more prosperous future for individual Algerians? Perhaps morality consists of doing nothing.

6. Which is more important: putting pressure on a stable repressive regime committed to certain harsh policies of social change which would be jeopardized by democracy, or leaving such a regime alone because it also plays an important role in maintaining world peace? China and Egypt illustrate the point. Neither is in the least committed to the protection of human rights. While Egypt might buckle under American pressure, at least temporarily, China would not. In any event, American policy with respect to the maintenance of peace in East Asia and in the Middle East depends very heavily on correct relations with both. One cannot be sure that leaders in Peking and Cairo would continue to collaborate with Washington in favoring policies of military disengagement if the Carter Administration also sought to stigmatize them as torturers, wardens of labor camps, and police spies.

7. Finally, which is more important: arms control and halting the spread of nuclear weapons or protecting the rights of dissidents in totalitarian countries? The rulers of the Soviet Union have strongly hinted that Washington cannot have it both ways. Protesting the violation of human rights in the Soviet Union may bring about the emigration of another 20,000 or 50,000 people. Permitting the nuclear arms race to escalate will put in mortal danger the lives and health of four or five billion.[26]

THE IMMORALITY OF CONFUSING PRIORITIES

Some of the greatest crimes against individual human rights have been committed by those who claim to incorporate the collective rights of peoples and nations and classes—by those who claim to be leading their followers to the utopia of equality and fraternity by shooting and exiling their opponents. Almost every national liberation movement which has led its supporters to political independence in the last twenty years, with the blessing of the United Nations, has become a repressive machine whose more fortunate victims seek asylum in the "capitalist-racist" West.

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[26] Testimony by Marshall D. Shulman before the House Committee on International Relations (U. S. Department of State, *Statement*, October 26, 1977, pp. 6-7) does little to clear the matter up. Shulman argued that "although the human rights issue has been a source of contention in U. S.-Soviet relations, it is our hope that over the longer run, it will be seen to have had constructive effects." The hope is based on the argument that long-term reductions of political and military tensions can contribute to easing internal repression. Perhaps so. But then, should not ideological confrontation be avoided until *after* political tensions between the two countries have actually been removed?

That is a fact of contemporary life with which even the Carter Administration has to come to terms. There is little that can be done about it, unless a new global crusade is to be launched. Such a crusade, of course, would call into question the success of other international priorities: détente, military disengagement from the Third World, economic betterment, improved health and housing, environmental protection, nuclear non-proliferation, a stable peace in various parts of the world. The foreign leaders on whose cooperation these priorities depend are the violators of human rights. We do not have to *encourage* them with arms, words of praise, police training techniques, or the CIA. But we cannot expect to change their ways with denunciations and the curtailment of aid and trade unless we are also willing to give up on other objectives.

Nor does it help to claim that our first priority is the creation of a better world order and that the observance of human rights is an essential part of such an order. "The quest for human rights and the quest for world order are not identical," says Stanley Hoffmann:

> Ordinary world order issues may foster conflict, the ultimate objective is accommodation—compromise for survival and progress. The issue of human rights, however, by definition, breeds confrontation. Raising the issue touches on the very foundations of a regime, on its sources and exercise of power, on its links to its citizens or subjects. It is a dangerous issue—a difficult one to manipulate, because if the Carter Administration does mean what it says it means, many other nations may take this as an assertion of American hubris, an old fondness for telling others how to run their affairs. The subject of human rights almost inevitably increases tensions with our enemies. If it is pursued very avidly, it diminishes the chances of cooperation on a number of other world order issues.[27]

Hence the human rights issue cannot be used, as President Carter suggested it should be used, as a way of relaunching the United States as the moral leader of mankind.

Yet there may be situations in which these tensions and confrontations may be acceptable, where an active policy of using national power to coerce a violator of human rights is free of the problems we examined. Such situations involve several ingredients:

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[27] Hoffmann, "The Hell of Good Intentions," pp. 7-8.

the violations are particularly brutal and widespread; their continuation arouses the strong opposition of most governments; collective or unilateral coercive measures are unlikely to interfere with the pursuit of other important foreign policy objectives; the use of such measures will not create a bad precedent for the evolution of a more benign world order. The case for a strong American policy on behalf of human rights in South Africa and in Uganda ought to be examined in these terms.

South Africa. There is no need to summarize the racial and economic policies institutionalized in South Africa; they are universally condemned as very serious violations of the human rights of the black and Asian majority. The United States gives no foreign aid to South Africa and maintains no military alliance with its government, but American firms invest heavily there and are reluctant to pull out merely because the government is repressive. The United States has been urged to add a policy of economic and financial discrimination to its embargo on the sale of military equipment in order to put pressure on Pretoria, a policy which would force a change in the conduct of American firms and investors. In all likelihood, such a policy would not seriously interfere with the attainment of any other foreign policy objective. Massive economic warfare against South Africa might very well compel the Pretoria government to change its ways because it is very dependent on the export of minerals to the United States, whereas the United States can buy the same commodities from others. Why not enact such an embargo?

Uganda. Nor is there a need to enumerate the crimes of Idi Amin. Unlike the case of South Africa, however, his rule by mass murder is not universally condemned. Other African states, irrespective of the private sentiments of their leaders, have publicly defended Uganda and expressed their opposition to unilateral or collective sanctions. They are unlikely to intervene actively in Uganda. Hence legislation is currently under discussion in the House of Representatives designed to bring about the fall of the Amin regime by means of a unilateral American boycott on the purchase of Ugandan coffee.[28] It is quite possible that such a step would be effective. It is equally possible that it might both arouse the active opposition of most African governments and lead to greater Ugandan dependence on Soviet aid. In my judgment these would be entirely acceptable costs.

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[28] Richard Ullman, "Human Rights and Economic Power: The United States Versus Idi Amin," *Foreign Affairs*, 56: 3 (April 1978). Ullman makes a most convincing case in favor of the moral and practical feasibility of a coffee embargo. My argument accepts and draws on his reasoning.

An embargo on Ugandan coffee, in short, would pose no issue as far as the attainment of other American policy objectives are concerned. Why then does the Carter Administration oppose the legislation and maintain that this mode of protecting human rights does interfere with other objectives?

The justification for inaction in South Africa and Uganda has to do with the creation of undesirable precedents for the future world order. The Carter Administration, like its predecessors, prefers to keep "politics" and "economics" separate in international relations. It does not wish to make trade and financial relations dependent on political alignments and calculations in the hope of keeping them subject to the universalistic norms which have grown up since 1945 (in spite of the fact that the United States has been highly selective in its adherence to these norms). A trade embargo justified by the policy of promoting human rights could backfire badly, even if it works in the cases in point. Suppose the Arab countries launch an oil embargo against the United States in the pursuit of their policy to safeguard the human rights of Palestinians? Or the organization of copper-producing nations boycotts sales to the West so as to promote the right to set commodity prices and limit corporate remittances? Remember, these are "human" rights as currently defined by the United Nations!

We can only speculate on the likelihood of such events. But, then, who predicted the oil embargo of 1973 over a purely political issue? In any event, the precedent has already been set; the United States was the chief actor in its establishment in relations with Cuba and the Dominican Republic. The application of our criteria, then, offers no compelling reasons against coercing South Africa and Uganda through economic measures.

Yet, I would argue, the principle of doing the least harm to innocent bystanders argues in favor of *not* enacting such measures against South Africa while imposing them against Uganda. The principle of proportionality forces us to ask who would suffer the most from such measures, granting that no great burden would be foisted on the United States in either case. In South Africa, those who would suffer most in the short run would be the very population whose rights are to be promoted; the slow down in industry and mines would inevitably increase social unrest and heighten the possibilities of internal violence. It would make more sense to provide incentives to American firms to so treat their black employees in South Africa as to set a telling example for the government of South

Africa and thus add to the already heavy pressure to alter the apartheid laws.

But in Uganda things are different. Since the coffee-growing peasantry is already denied most of its share of the revenue, no additional suffering would be entailed. Moreover, unlike the situation in industrialized South Africa, the Ugandan economy is so precarious as to make the loss of the American coffee market an emergency which would damage the regime immediately. Since no moral or practical issue militates against the use of economic sanctions, one might expect the Carter Administration to welcome this opportunity to try a little harder. It exemplifies the "selective approach" with minimal costs. For once, there are no important trade-offs to be considered.

TOWARD A TRUE HUMAN RIGHTS POLICY

Many veterans and beneficiaries of the civil rights struggle applauded the emphasis on human rights and saw in it the extension of their concerns to Africa and Latin America. Others welcomed it as a way of showing America's continued opposition to communism without having to resort to armed threats. Many, while sharing some feeling of malaise about the feasibility of the policy, nevertheless supported it enthusiastically because they felt the need for an ethical reaffirmation, a restatement of core American values after the traumas of Vietnam and Watergate.

They will all be disappointed. All of these expectations, and Carter's desire to cater to them, ignore the issue of trade-offs. All of them fail to recognize the global trend toward collective rights, the lack of consensus, the impatience with individual rights. Either the Administration resolutely pursues human rights everywhere—which it cannot and will not do for the reasons we have given—or it promotes them "selectively," as it has in fact done. Selective promotion will be seen as a sellout, as trimming. If it goes too far it will be exposed as hypocrisy, not as an affirmation of an ethically rededicated nation.

Yet more modest alternatives are open to the Administration. It can certainly refrain from supporting repressive regimes actively when no important objective of policy is served by such support. But in terms of generous acts of commission rather than omission, it can underwrite certain rights which *are* consistent with the American tradition and *are* compatible with all the major foreign policy objectives. They do not raise any of the nagging moral and practical issues. No problem of priorities arises. Moreover, these rights have already been legitimated by a number of recent international meetings.

Prominent among them is the right to adequate food and nutrition. The right is personal, capable of being defined in scientific terms, universal, and subject to efficient implementation through international programs and national contributions. A right to a minimal standard of health—as opposed to "full mental and physical health"—is equally realistic, and for the same reasons. Others may come to mind readily. They can be embraced by communists, fascists, liberals, and ordinary authoritarians. They are of equal appeal to Muslims, Hindus, Christians, and atheists. They threaten no government and they do not pit legal and philosophical traditions against each other. I commend them to the Carter Administration.

Appendix

CLASSIFICATION OF POLITIES BY POLITICAL AND ECONOMIC TYPE

Competitive/Industrialized-Mixed Economy

Australia
Austria
Belgium
Canada
Denmark
Finland
France
Germany (West)
Iceland
Ireland
Israel
Italy
Japan
Luxembourg
Malta
Netherlands
New Zealand
Norway
Spain
Sweden
Switzerland
U. K.
U. S.

Competitive/Developing-Mixed Economy

Bahamas
Barbados
Botswana
Colombia
Costa Rica
Cyprus
Dominican Republic
Fiji
Gambia
Greece
India
Jamaica[*]
Portugal
Sri Lanka[*]
Surinam
Trinidad
Turkey
Venezuela

Semi-Competitive/Industrialized-Mixed Economy

Argentina[a]
Kuwait[b]
South Africa[*]
United Arab Emirates[b][*]
Uruguay[a]

Semi-Competitive/Developing-Mixed Economy

Bolivia
Brazil[a]
Ecuador[a]
Egypt
El Salvador
Grenada
Guatemala
Guyana
Honduras
Indonesia[a]
Kenya
Lebanon
Malaysia
Mauritius
Mexico
Nicaragua
Nepal[b]
Oman[b]
Pakistan[a]
Peru[a]
Senegal
Singapore
South Korea
Taiwan
Thailand
Yemen

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[*] Classification imperfect

[a] Institutionalized army regime

[b] Traditional/absolute monarchy

APPENDIX

Non-Competitive/Developing-Mixed Economy

Afghanistan[*]
Bangladesh[a]
Bhutan[b][*]
Burundi
Cameroon
Central African Empire
Chad
Chile[a]
Gabon
Ghana
Guinea
Haiti
Iran[b]
Ivory Coast
Jordan[b]
Lesotho
Liberia
Malagasy Republic
Malawi
Mali
Mauritania
Morocco[b]
Niger
Nigeria[a]
Panama[a]
Paraguay
Philippines
Rwanda
Saudi Arabia[b]
Sierra Leone
Sudan
Swaziland[b]
Togo
Tunisia
Ug[illegible]
[illegible]olta
Yugo[illegible][*]
Zaire
Zambia

Non-Competitive/Developing-Command Economy

Algeria
Benin[*]
Burma[a]
Congo[*]
Iraq[a]
Libya[a]
Somalia[*]
Syria
Tanzania[*]

Totalitarian/Industrialized-Command Economy

Bulgaria
Czechoslovakia
Germany (East)
Hungary
Poland
Romania
U. S. S. R.

Totalitarian/Developing-Command Economy

Albania
Cambodia
China
Cuba
Equatorial Guinea[*]
Ethiopia
Guinea-Bissau
Laos
Mongolia
Mozambique[*]
North Korea
South Yemen
Vietnam

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U.S. Congressional Budget Office. Budgetary cost savings to the Department of Defense resulting from foreign military sales. Washington, U.S. Govt. Print. Off., 1976. 26 p. (Staff working paper)

———The effect of foreign military sales on the U.S. economy. Washington, For sale by the Supt. of Docs., U.S. Govt. Print. Off., 1976. 27 p. (Staff working paper)
Analyzes the macroeconomic effects on the U.S. economy of the sale of U.S. arms abroad, using two econometric models.

U.S. General Accounting Office. Perspectives on military sales to Saudi Arabia: report to the Congress by the Comptroller General of the United States. [Washington] 1977. 50 p. "ID-77-19A, Oct. 26, 1977" HD9743.U6U59 1977a 382.45.

U.S. Library of Congress. Congressional Research Service. Implications of President Carter's conventional arms transfer policy: report to the Committee on Foreign Relations, United States Senate by the Subcommittee on Foreign Assistance of the Committee on Foreign Relations. United States Senate. Washington, U.S. Govt. Print. Off., 1977. 50 p.
At head of title: 95th Cong., 1st sess. Committee print. E872.U45 1977 327.73.

U.S. President. 1977- (Carter). Arms transfer policy; report to Congress. Washington, U.S. Govt. Print. Off., 1977. 107 p.
At head of title: 95th Cong., 1st sess. Committee print.

Vayrynen, Raimo. Transnational corporations and arms transfers. Instant research on peace and violence, v. 7, no. 3-4, 1977: 145-166.

A vote for continued arms sales abroad. Nation's business, v. 65, Aug. 1977: 16.

Weapons for the world: update II. Council on Economic Priorities newsletter, Dec. 18, 1978: 1-8.

Weaver, Jerry L. Arms transfers to Latin America: a note on the contagion effect. Journal of peace research, v. 11, no. 3, 1974: 213-219.
Hypothesizes that "the purchase of a new weapons system by one country will spur its suspicious or rival neighbors to obtain new arms."

Weiss, Seymour. President Carter's arms transfer policy: a critical assessment. [Washington] Advanced International Studies Institute [1978] 23 p. (Advanced International Studies Institute. Special reports on international affairs)
"Attempts to examine the Carter Administration's policy as it has been applied over a number of months . . . to determine the extent to which it has in fact been adhered to and to assess the impact it has had on U.S. interests." E872.W44. 327.174.

Why Carter will have a tough time trying to curb arms sales. U.S. news & world report, v. 83, Aug. 1, 1977: 39-40.

D. DEBATE PROPOSITION THREE—RESOLVED THAT: THE UNITED STATES SHOULD SIGNIFICANTLY REDUCE ITS FOREIGN ASSISTANCE PROGRAMS TO TOTALITARIAN GOVERNMENTS

Beitz, Charles R. Human rights and social justice. College Park, Md., Center for Philosophy and Public Policy, University of Maryland, 1978. 21 l. (Working paper HRFP-3A)

Broslin, Patrick. Human rights: rhetoric or action? Washington Post, Feb. 27, 1977, p. C1, C4.
"Jimmy Carter's outspoken advocacy of human rights abroad moved from rhetoric to concrete action."

Bundy, William P. Dictatorships and American foreign policy. Foreign affairs, v. 54, Oct. 1975: 51-60.
In an historical survey the author shows that American policy on the question of dictatorships has often been contradictory and comes to the conclusion that our distaste for dictatorships should have much clearer weight in our total policies.

Center for International Policy. Human rights and the U.S. foreign assistance program, fiscal year 1978, part 1—Latin America. Washington, 1977. 61 p.
The report examines Argentina, Brazil, Chile and Nicaragua.

Chace, James. How 'moral' can we get? New York times magazine, May 22, 1977: 38-40, 42, 44, 46, 48.

"By injecting human rights into foreign policy, Carter has revived an old American dilemma."

Chomsky, Noam. "Human rights" and American foreign policy. Nottingham, Spokesman Books, 1978. 90 p. E744.C5143 327.73.

———, and Edward S. Herman. Why American business supports Third World fascism. Business and society review, no. 23, fall 1977: 13-21.

For a group of ten countries with dictatorial governments, the authors develop the thesis that "human rights have tended to stand in the way of the satisfactory pursuit of U.S. economic interests, and they have been systematically brushed aside."

Claude, Richard P. Human rights in the Philippines and United States responsibility. College Park, Md., Center for Philosophy and Public Policy, University of Maryland, 36 l. (Working paper HRFP-5.)

Christopher, Warren. Human rights: principle and realism. Dept. of State bulletin, v. 77, Aug. 29, 1977: 269-273.

Derian, Patricia M. The role of human rights policy in arms transfers. Dept. of State bulletin, v. 78, Nov. 1978: 51-54.

Doran, Charles F. U.S. foreign aid and the unstable polity: a regional case study. Orbis, v. 22, summer 1978: 435-4[illegible].

Examines "the aid/stability linkage in the context of historical experience within the Caribbean-Central American region. . . . The impact of foreign aid on the domestic political stability of Caribbean and Central American polities is especially timely."

Drew, Elizabeth. Human rights. New Yorker, v. 53, July 18, 1977: 36-38, 40-42, 44, 46, 51-52, 54-62.

"A human-rights policy, it has already been discovered, will be hard to implement, because the advocacy of human rights as an aim of foreign policy can collide with other, contradictory aims."

Falk, Richard. The human rights country reports. World issues, v. 3, Oct.-Nov. 1978: 19-21.

Finn, James. A friendly disagreement about human rights. Worldview, v. 20, July-Aug. 1977: 4-8.

A pro and con dialogue.

Fish, Howard M. Security assistance in perspective. College Park, Md., Center for Philosophy and Public Policy, University of Maryland, 1978. 15 l. (Working paper HRFP-4)

Foreign policy and human rights. In American Society of International Law. Proceedings of the 69th annual meeting. Washington [c1976] p. 254-264.

Remarks by Leonard Meeker and Carlyle Maw.

Frankel, Charles. Human rights and foreign policy. [New York] Foreign Policy Association [1978] 64 p. (Headline series, 241)

"The association of America with the idea of fundamental human rights has, through most of its history, made the country, as it were, an international possession—a country whose performance has been watched with special hope. and also with a sharp critical eye. And it has been traditional for Americans themselves to think, or wish to think, that human rights are not just an American idea."

Fraser, Donald M. Freedom and foreign policy. Foreign policy, no. 26, spring 1977: 140-156.

"Jimmy Carter took office with a commitment to infuse American foreign policy with a deeper concern for human rights . . . however, the fulfillment of this commitment may prove difficult."

From Marshall Plan to global interdependence: new challenges for the industrialized nations. Paris, OECD Washington, D.C., sold by OECD Publications Center, c1978. 246 p. HC59.F796 338.91.

Goldberg, Arthur J. Human rights—an issue for our time. Hastings law journal, v. 29, May 1978: 887-891.

"The current concern with human rights can be viewed as part of an ongoing revolution, a central concept of which is that human rights transcend the laws and domestic jurisdiction of states and are rightfully the concern of all men," writes "former Associate Justice of the Supreme Court of the United States and

Chairman of the U.S. Delegation to the Conference on Security and Cooperation in Europe (CSCE)."

Gordon, Lester E. An assessment of development assistance strategies; interim report. [Washington] Brookings Institution, 1977. Various pagings.

"Submitted to the Department of State in accordance with Grant No. 1722-720235."

The Great foreign aid debate of 1978. Americans for Democratic Action legislative newsletter, v. 7, Nov. 16, 1978: 1–4; Nov. 15: 1–4.

Haas, Ernst B. Global evangelism rides again: how to protect human rights without really trying. Berkeley, Institute of International Studies, University of California, c1978. 49 p. (Policy papers in international affairs; no. 5.) K3240.6.H3 341.481.

Harkin, Tom. Human rights and foreign aid: forging an unbreakable link. College Park, Md., Center for Philosophy and Public Policy, University of Maryland, 1978. 16 l. (Working paper HRFP–7.)

Hawk, David. Human rights at half-time: toting up the score in President Carter's most noble enterprise. New republic, v. 180, Apr. 7, 1979: 21–23.

Henderson, Conway W. Underdevelopment and political rights: a revisionist challenge. Government and opposition, v. 12, summer 1977: 276–292.

"The task of this paper is to take the revisionist side of the issue as to whether or not political participation, as a right, can be enjoyed in the context of underdevelopment." The article defends the revisionist position and raises serious questions about the position of the apologists, supporting authoritarian rule.

Holmer, David R. The role of US security assistance: its impact on the recipient nation. Military review, v. 58, Feb. 1978: 68–74.

Howell, Leon, Human rights: real commitment or seasonal fad? Christianity and crisis, v. 37, Apr. 18, 1977: 74–77.

Are human rights a high priority in U.S. foreign policy?

Human rights abroad: reality or illusion for U.S. policy? In Great decisions '78. [New York] Foreign Policy Association [1978] 4–15 p.

"President Jimmy Carter has proclaimed human rights 'a fundamental tenet of our foreign policy.' Abroad, this new emphasis pleases some leaders, worries others and offends still others—notably in the Kremlin. At home, it is welcomed as reflecting this nation's heritage of freedom and our desire that America should regain its position as a moral force in the world. But can we harmonize these noble principles with our other foreign policy goals? Can we advance individual freedom abroad without endangering peace and orderly progress? What means should we use, and how soon can we expect results?"

Human rights & American diplomacy, 1975–77. Editor, Judith F. Buncher; contributing writers, Joseph Fickes, and others. New York, Facts on File. c1977. 271 p. JX1417.H85 327.0973.

Human rights: seven selected documents on human rights. [Washington] Dept. of State, Bureau of Public Affairs, Office of Media Services, [1977] 29 p. (Selected documents—Department of State, Office of Media Services; no. 5.) K3238.A1H85. 341.481.

Huntington, Samuel P. Foreign aid for what and for whom. Foreign policy, no. 1, winter 1970–71: 161–189; no. 2, spring 1971: 114–134.

An introduction to the study of human rights: based on a series of lectures delivered at King's College, London in the autumn of 1970; introduction by Sir Francis Vallat, London, Europa [1972] 127 p. JC571.I64 323.4.

Johnson, Donald C. Congress, the executive, and human rights legislation. Foreign Service journal, v. 53, Dec. 1976: 18–20, 28.

Johnson argues that recent Congressional legislation to make economic and security assistance to developing countries contingent on those countries achieving a certain undefined level of civil liberties, is poorly conceived.

Kissinger, Henry A. Continuity and change in American foreign policy. Society, v. 15, Nov.–Dec. 1977: 97–106.

"I would like to discuss some of the philosophical underpinnings from which tactical decisions derive: the nature and purpose of bipartisanship in our democracy; the challenge of pursuing our moral values, especially human rights, in a complex world; and the relationship of issues such as human rights to others."

————Morality and power: the role of human rights in foreign policy. Washington post, Sept. 23, 1977, p. C3.

"Morality without security is ineffectual; security without morality is empty. To establish the relationship and proportion between these goals is perhaps the most profound challenge before our government and our nation," concludes former Secretary of State.

Kyrolainen, Hannu. An analysis of new trends in US military training and technical assistance in the Third World. Instant research on peace and violence, v. 7, no. 3-4, 1977: 167-183.

Laqueur, Walter. The issue of human rights. Commentary, v. 63, May 1977: 29-35.

The human-rights issue being made a cornerstone of foreign policy, presents a dangerous challenge to the administration.

Lateef, Noel V. Targeting foreign aid to the poorest of the poor. Foreign Service journal, v. 54, Dec. 1977: 18-20, 33.

"A new development strategy, namely, that of targeting external assistance to the poorest of the poor in developing countries, has prompted considerable speculation that fresh life is being breathed into the battered corpus of foreign aid."

Lefever, Ernest W. The trivialization of human rights. Policy review, no. 3, winter 1978: 11-26.

"The Carter campaign has confused our foreign policy goals and trivialized the concept of human rights. It both reflects and reinforces serious conceptual flaws." The article examines six interrelated flaws of the human rights crusade.

Lobe, Thomas. United States national security policy and aid to the Thailand police. [Denver, Graduate School of International Studies, University of Denver, 1977] 161 p. (Denver. University. Graduate School of International Studies. Monograph series in world affairs)

Loescher, G. D. U.S. human rights policy and international financial institutions. World today, v. 33, Dec. 1977: 453-463.

"In the formulation of US foreign policy today, human rights issues are considered in the allocation of security, economic and financial assistance."

McKinlay, R. D., and R. Little. A foreign policy model of U.S. bilateral aid allocation. World politics, v. 30, Oct. 1977: 58-86.

"One view explains the allocation of aid in terms of humanitarian needs of the recipient, the other explains it in terms of foreign policy interests of the donor. . . . This paper develops an analytic model of the foreign policy view of aid . . . [which is] tested by making a cross-national, longitudinal study of the allocation of U.S. aid over the years 1960-1970."

McLaughlin, Martin M. The United States and world development: agenda 1979. New York, Praeger [c1979] 268 p. (Praeger special studies)

"To participate effectively in what the President on his inauguration day called a 'common effort' to alleviate the world's increasingly interrelated economic and social problems, the United States must now simultaneously (1) help revive the presently stalled negotiations to reform the international economic system that now so clearly fails to assure the future progress of both North and South, and (2) focus on the need to launch an international effort to meet the basic needs of poor people everywhere within a specified time frame."

Marchino, Michael., and Robert K. Musil. Food for Peace or food for power? Christian century, v. 94, Aug. 17-24, 1977: 714-718.

Authors contend that the Food for Peace program is "a foreign policy weapon designed to promote U.S. economic, political and military advantage. They "criticize the U.S. for making aid available to repressive regimes, for using aid as a means of maintaining U.S. agricultural prices, and for ignoring destitute countries whose friendship would not advance U.S. foreign policy aims.

Martin, Edwin M. Should observance of basic human rights be a prerequisite for aid? Atlantic community quarterly, v. 16, summer 1978: 216-221.

"Aid should be given to an LDC when doing so is more likely to improve the observance of basic human rights in the future than withholding it."

Martin, William M., Jr. Human rights and foreign policy: the relationship of theory and action. Parameters, v. 8, Sept. 1978: 30-40.

Human rights—"it is not a new idea, but one that in the last few years has suddenly become a major theme in world diplomacy and one of the thorniest issues between East and West. The present administration seems firmly committed to its cause."

Mason, Paul T., ed. Totalitarianism; temporary madness or permanent danger? Boston Heath [1967] 121 p. (Problems in European civilization.) JC481.M295. 321.9.

Maxfield, David M. Commitment? Arms sales, human rights policies questioned on Hill. Congressional quarterly weekly report, v. 35, Oct. 29, 1977: 2319-2320.

Mower, A. Glenn, Jr. Implementing United Nations covenants. Society, v. 15, Nov.-Dec. 1977: 76-80.

"Politics and human rights are so interwoven that they cannot be separated. . . . Twenty years has produced a rights-implementing machinery that is 'not the best, but probably the best obtainable.'"

Moynihan, Daniel P. The politics of human rights. Commentary, v. 64, Aug. 1977: 19-26.

"Human rights is the single greatest weapon we have left for the defense of liberty. It would be calamitous if we allowed ourselves to be robbed of it by the voices of fear and quilt, inside the government or out," concludes United States Senator from New York.

Neuhaus, Richard John. What we mean by human rights, and why. Christian century, v. 95, Dec. 6, 1978: 1177-1180.

"It is important to list those rights that must be protected; it is more important to understand the moral foundations of rights as such."

Niemeyer, Gerhart. Freedom and rights: what is to be done? Review of politics, v. 40, Apr. 1978: 183-195.

Explores human rights and legitimate foreign policy objectives.

Packenham, Robert A. Liberal America and the Third World; political development ideas in foreign aid and social science. Princeton, N.J., Princeton University Press, 1973. 395 p. HC60.P2 338.91.

The political problems of the new debate on human rights. Government and opposition, v. 12, summer 1977: 269-275.

The article deals with several factors which are going to bring the issue of human rights to the forefront of international relations, and the problems of national and international politics created by the new debate.

Pranger, Robert J., and Dale R. Tahtinen. Toward a realistic military assistance program. Washington, American Enterprise Institute for Public Policy Research, 1974. 48 p. (Foreign affairs studies, no. 15.) UA12.P7 355.0320973.

Reisman, David. Human rights: conflict among our ideals. Commonweal, v. 104, Nov. 11, 1977: 711-715.

"The focus inevitably plays into the Cold War mentality."

Schlesinger, Arthur, Jr. Human rights and the American tradition. Foreign affairs, v. 57, no. 3, 1979: 503-526.

"After two uncertain years, [human rights initiative] . . . remains a vital if problematic strain in American foreign policy. It therefore seems appropriate to attempt an interim assessment of the human rights initiative: its origins, its ambiguities, its achievements, its perils, its prospects."

Shue, Henry. Foundation for a balanced U.S. policy on human rights: the significance of subsistence rights. College Park, Md., Center for Philosophy and Public Policy, University of Maryland, 1977. 32 l. (Working paper HRFP-1)

Shulman, Marshall D. On learning to live with authoritarian regimes. Foreign affairs, v. 55, Jan. 1977: 325-338.

The article deals with U.S. relations with the Soviet Union and examines also U.S. relations with some less powerful but authoritarian regimes.

Smith, Gaddis. What we got for what we gave: the American experience with foreign aid. American heritage, v. 29, Apr.-May 1978: 64-71, 76-81.

"The American government, beginning with the loans of World War I, has had sixty years' experience with foreign aid. The experience reflects the shifting assumptions of foreign policy—from the denial in World War I that our loans should be considered a contribution to a common military effort; to the generosity of Lend-Lease and the Marshall Plan during and after World War II; . . . to the disillusionment of the Vietnam era, when many Americans seemed on the verge of abandoning the whole enterprise; to a quieter, more mature willingness in the late 1970's to continue foreign aid, but on a relatively modest scale and without utopian expectations."

Smith, Ralph Stuart. The United States and the Third World: a discussion paper prepared by Ralph Stuart Smith, special adviser, Bureau of Public Affairs, Department of State. Washington, Office of Media Services, Bureau of Public Affairs for sale by the Supt. of Docs. U.S. Govt. Print. Off., 1976. 65 p. (General foreign policy series, 301; Department of State publication, 8868 HC59.7.855 338.91.

Sohn, Louis B. The human rights law of the Charter. Texas international law journal, v. 12, spring-summer 1977: 129–140.

"Not only the letter of the Charter but also the spirit of its human rights provisions have had a profound influence on the changes in the human rights field which have occurred in many parts of the world since 1945."

Special issue: human rights. Bulletin of peace proposals, v. 8, no. 3, 1977: whole issue.

Partial contents.—Human rights and peace research, by K. Skjelsbaek.—The United Nations and human rights: a critical appraisal, by T. van Boven.—Militarization and human rights in the Third World, by R. Falk.—Development and human rights, by S. Marks.—Human rights and educational reform, by B. Reardon.—Human needs and human rights: a theoretical approach, by J. Galtung and A. Wirak.

Stauffer, Robert B. Philippine authoritarianism: framework for peripheral "development". Pacific affairs, v. 50, fall 1977: 365–386.

Examines critically the political implications of the American development model for the Philippines. "The American model accepted the high probability that development would be accompanied by widening internal gaps between rich and poor, between regions, and between the industrialised center and the developing periphery. . . . The basic economic model hides an implicit political model—that of an authoritarian polity."

Tonelson, Alan. Foreign aid reform: killed with kindness. Nation, v. 226, June 10, 1978: 686–689.

"A bill containing the most ambitious effort in seventeen years to overhaul the beleaguered U.S. foreign aid program died quietly early this spring."

U.S. Agency for International Development. Implementation of "New Directions" in development assistance: report to the Committee on International Relations on the implementation of legislative reforms in the Foreign Assistance Act of 1973. Washington, U.S. Govt. Print. Off., 1975. 86 p.

At head of title: 94th Cong., 1st sess. Committee [on International Relations] print. KF4668.A8123 343.73074.

U.S. Congress. House. Committee on International Relations. New directions in development aid: excerpts from the legislation (as of January 1977). Washington, U.S. Govt. Print Off., 1977. 20 p.

At head of title: 95th Cong., 1st sess. Committee print. KF4668.A25 1977. 343.73.

U.S. Congress. House. Committee on International Relations. Subcommittee on International Development. Rethinking United States foreign policy toward the developing world. Hearings, 95th Cong., 1st sess. Washington, U.S. Govt. Print. Off., 1977. 214 p.

Hearings held Aug. 4, Oct. 12, and Nov. 1, 1977.

"A critical review of AID, briefing on certain executive branch activities in the foreign aid field, the Brookings Institution report." KF27.I549 1977c 353.00892.

U.S. Congress. House. Committee on International Relations. Subcommittee on International Organizations Foreign assistance legislation for fiscal year 1979 (part 4). Hearings, 95th Cong., 2d sess. Washington, U.S. Govt. Print. Off., 1978. 785 p.

U.S. policy on human rights and military assistance in Indonesia, Nicaragua, Philippines, Thailand, and Iran. U.S. voluntary contributions to international organizations and programs.

Hearings held Feb. 15 . . . Mar. 8, 1978. KF27.I549 1978 353.008.

——— Human rights and United States foreign policy: a review of the Administration's record. Hearing, 95th Cong., 1st sess. Oct. 25, 1977. Washington, U.S. Govt. Print. Off., 1978. 74 p. KF27.I5494 1977o 323.409.

U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on Foreign Assistance. Human rights. Hearings, 95th Cong., 1st sess. Mar. 4 and 7, 1977. Washington, U.S. Govt. Print. Off., 1977. 104 p. KF26.F6357 353.00892.

U.S. Congressional Budget Office. Bilateral development assistance: background and options. [Washington, for sale by the Supt. of Docs., U.S. Govt. Print. Off., 1977] 41 p.

At head of title: Budget issue paper.

Contents.—The history: changing programs and recipients.—Current U.S. economic assistance.—Assessing bilateral development.—Budget opcions for bilateral development. HC60.U486 1977 338.91.

U.S. Dept. of State. Country reports on human rights practices; report submitted to the Committee on International Relations, U.S. House of Representatives and Committee on Foreign Relations, U.S. Senate in accordance with sections 116(d) and 502B(b) of the Foreign Assistance Act of 1961, as amended. Washington, U.S. Govt. Print. Off., 1978. 426 p.

At head of title: 95th Cong., 2d sess. Joint committee print.

———Human rights practices in countries receiving U.S. security assistance; report submitted to the Committee on International Relations, House of Representatives by the Department of State, in accordance with section 502B(b) of the Foreign Assistance Act, as amended. Washington, U.S. Govt. Print. Off., 1977. 137 p. K3240.4.U54 323.4.

———Report on human rights in countries receiving U.S. aid. Submitted to the Committee on Foreign Relations, U.S. Senate and Committee on Foreign Affairs, U.S. House of Representatives. Washington, U.S. Govt. Print. Off., 1979. 768 p.

At head of title: 96th Cong., 1st sess. Joint committee print.

U.S. Laws, statutes, etc. New directions in development aid; excerpts from the legislation. Prepared by the Committee on International Relations of the House of Representatives. Washington, U.S. Govt. Print. Off., 1976. 21 p. KF4668.A3 1976 343.73.

U.S. Library of Congress. Foreign Affairs and National Defense Division. Human rights conditions in selected countries and the U.S. response. Prepared for the Subcommittee on International Organizations of the Committee on International Relations, U.S. House of Representatives. Washington, U.S. Govt. Print. Off., 1978. 372 p.

At head of title: 95th Cong., 2d sess. Committee print. JC571.U5 1978 323.4.

———Human rights in the international community and in U.S. foreign policy, 1945–76. Prepared for the Subcommittee on International Organizations of the Committee on International Relations, House of Representatives. Washington, U.S. Govt. Print. Off., 1977. 58 p.

At head of title: 95th Cong., 1st sess. Committee print. K3240.4.U555 341.481.

———United States arms transfer and security assistance programs. Prepared for the Subcommittee on Europe and the Middle East of the Committee on International Relations, U.S. House of Representatives. Washington, U.S. Govt. Print. Off., 1978. 175 p.

At head of title: 95th Cong., 2d sess. Committee print.

"U.S. security assistance programs, are now conducted under the following broad categories: the military assistance program (MAP); international military education and training (IMET); the foreign military sales (FMS) program; commercial sales; ship transfers; and security supporting assistance. Within each category, this study summarizes key information on program purposes, legislative authority and limitations, program administration, and current status." HD9743.U6U593 1978 382.45.

Utley, T. E. A reappraisal of the human rights doctrine. Policy review, no. 3, winter 1978: 27–34.

"My intention is to examine the proposition, now fashionable in Britain and the United States, that the defense of human rights should be among the chief objects of foreign policy. I shall argue that this proposition is both false and dangerous."

Vance, Cyrus. Human rights and foreign policy. Georgia journal of international and comparative law, v. 7, summer 1977: 223–229.

"Law Day Address to the Lumpkin School of Law given at the University of Georgia, April 30, 1977."

Vogelgesang, Sandra. What price principle? U.S. policy on human rights. Foreign affairs, v. 56, July 1978: 819–841.

"The U.S. policy on human rights . . . has reached a critical point of decision. . . . The issues have important implications for East-West and North-South relations and, indeed, for the redefinition of the national interest and consensus underlying U.S. foreign policy."

Weissbrodt, David. Human rights legislation and U.S. foreign policy. Georgia journal of international comparative law, v. 7, summer 1977 : 231–287.

"Part I of this article sets forth the historical precedents for the new United States human rights activities. Part II then outlines the human rights legislation which mandates and shapes the United States human rights efforts. Part III suggests a tentative approach for pursuing the fundamental mandate of the human rights legislation to make internationally recognized human rights a central focus of United States foreign policy."

———United States ratification of the human rights covenants. Minnesota law review, v. 63, Nov. 1978 : 35–78.

"On February 23, 1978, President Carter submitted two Human Rights Covenants, . . . to the Senate for its advice and consent. In a letter accompanying the four treaties, the President recommended a series of reservations and understandings as to the Covenants. . . . This article begins by briefly discussing the background of the Covenants . . . Turning next to the reservations and understandings proposed in President Carter's letter . . . the article . . . identifies three standards against which these reservations can be evaluated—the United States Constitution, international law, and the response of other nations."

Wermuth, Anthony L. America's relations with dictators. Parameters, v. 7, no. 1, 1977 : 63–78.

"In sum, wherever America supports some dictator, it is never because he is a dictator. America also opposes other dictators. America also supports some democrats and inbetweens and rejects others. Whatever our policy turns out to be toward one country or another, the bedrock principle involved is the same in every case : American interest."

Wiarda, Howard J. Democracy and human rights in Latin America : toward a new conceptualization. Orbis, v. 22, spring 1978 : 137–160.

The article deals with the issues of human rights and U.S. relations with authoritarian regimes of Latin America, "and raises some troubling questions : Are democracy and human rights everywhere the same and universal? Are they relevant in the same sense to all societies and in all time frames?"

Williams, Douglas. Human rights, economic development and aid to the Third World : an analysis and proposal for action. ODI [Overseas Development Institute] review, no. 1, 1978 : 14–37.

For the more serious breaches of the U.N. covenants on economic, political and cultural rights "there can be no justification on developmental grounds—indeed they can only impede development—and the international community should be careful before it makes concessional funds available to help countries guilty of such breaches. On the other hand, to use aid funds as a crude economic sanction, tempting though this is, is more likely to damage the development effort than to improve human rights."

Wolpin, Miles D. Military aid and counterrevolution in the Third World. Lexington, Mass. Lexington Books, 1972. 327 p. UA12.W64 322.5.

How To Secure Additional Material on United States Foreign Policy

A. GENERAL INDEXES

Because review of the literature for material to be included in this compilation ceased in March 1979, there is included here a guide for the debater who wishes to update or expand on this compilation. The debater can keep up with the rapidly changing events which affect U.S. foreign policy by reading a daily newspaper and one of the popular weekly news magazines such as Time, Newsweek or U.S. News & World Report. Many of the large-circulation newspapers around the country provide in-depth coverage of foreign policy issues and are also accessible by published indexes. The New York Times Index, the Wall Street Journal Index, and the Index to the Christian Science Monitor are relatively long-standing indexes to newspaper articles. More recently, the Bell & Howell Newspaper Indexing Center has compiled indexes for the Chicago Sun-Times, the Chicago Tribune, the Denver Post, the Detroit News, the Houston Post, the Los Angeles Times, the New Orleans Times-Picayune, the San Francisco Chronicle, and the Washington Post.

Other general indexes to current literature include the Readers' Guide to Periodical Literature, a guide to general and non-technical periodicals; the Bulletin of the Public Affairs Information Service, a subject list of books, pamphlets, government publications, reports of public and private agencies, and periodical articles; the Social Sciences Index, a subject and author index to selected English language periodicals; the International Political Science Abstracts, an index to foreign and American journals publishing primarily on political science; the Vertical File Index, a list of free and inexpensive pamphlets, leaflets, booklets and mimeographed materials; and the Business Periodicals Index, a subject index to periodicals in the areas of business and finance. The Book Review Digest offers a subject index to reviews of current books appearing in selected periodicals. Dissertation Abstracts International provides subject access to doctoral dissertations approved by American and foreign universities. ABC Pol Sci (Advanced Bibliography of Contents: Political Science and Government), published quarterly, contains the tables of contents from several dozen political science journals and provides a quick scan of recent literature in one publication.

B. FEDERAL GOVERNMENT PUBLICATIONS

Some of the most valuable sources of information on official U.S. foreign policy are U.S. Government publications. Government publications available to the general public are listed in the Monthly Catalog of United States Government Publications. This catalog is arranged according to the various Government agencies which prepare documents and the documents are in turn indexed in the back of each issue by subject. All material in this catalog is available for purchase by the general public. If documents listed in the Monthly Catalog are not available at your local library consult your librarian who can tell you the location of the nearest depository library which has them or initiate an interlibrary loan for you. There are over 1,300 Government depository libraries throughout the country which have been designated to receive large collections of Government publications. The Monthly Catalog provides an index to Congressional hearings, reports, documents and committee prints as well as to publications from the Executive departments.

There are several other Government publications which are particularly useful for tracking Presidential-Executive and Congressional statements and activities. The Congressional Record, besides recording the debates on the floors of Congress, contains insertions of articles and speeches presented elsewhere. The Record is printed daily during sessions of Congress with a bi-weekly index. Bound volumes of the Record are published at the end of each Congress with a cumulative index for each session. Pagination differs between the daily and bound editions of the Record. The Digest of Public General Bills and Resolutions, issued several times during each session provides summaries of each public bill and resolution and its current status in the legislative process.

The primary source for Presidential speeches, public statements, messages to Congress, press conferences and other material released by the White House is the Weekly Compilation of Presidential Documents. It is indexed by subject, format and name. The most up-to-date official record of U.S. foreign policy is the Department of State Bulletin. Issued monthly, the Bulletin includes key speeches by State Department officials, transcripts of testimony before Congress, texts of press releases and other official statements.

C. SOURCES COVERING CONGRESSIONAL AND PRESIDENTIAL ACTION

Several periodical services regularly analyze changes in federal policy through the actions of Congress, the President, the Courts and interest groups. They all provide in their general coverage of public policy issues, coverage of political developments in U.S. foreign policy. Congressional Quarterly Weekly Report summarizes congressional activities for the preceding week and includes background information on issues before Congress. The Congressional Quarterly Almanac is an annual comprehensive review of the legislative session. The weekly, National Journal Reports, covers recent congressional and Presidential actions and their impact on public policy. Congressional Digest features a pro-con discussion of one current legislative problem in each of ten issues per year. The Commerce Clearing House Congressional Index is a loose-leaf service reporting the status of pending legislation. The United States Code Congressional and Administrative News reproduces public laws, House or Senate reports of each bill that becomes law, legislative history for public laws and an essay section discussing issues before Congress.

A further aid in finding the wealth of information published by Congress is the Congressional Information Service/Index which abstracts and indexes congressional hearings, reports, documents and committee prints. Congressional materials are indexed by subject, names of witnesses at hearings, authors, affiliations of witnesses, popular names of bills and reports, and law, bill, report, and document numbers.

D. INTERNATIONAL DOCUMENTATION

For the student interested in pursuing the documentation of international organizations relating to the debate propositions, reference should be made to IBID, International Bibliography, Information, Documentation which contains a subject list of official publications from several dozen international organizations. United Nations documents are indexed in UNDEX, United Nations Documents Index by subject, country and issuing U.N. agency. A current account of United Nations activities is found in the U.N. Monthly Chronicle.

E. HISTORICAL SURVEYS

For an historical overview of U.S. foreign policy, debaters may refer to the following works:

Bailey, Thomas A. A diplomatic history of the American people. 9th ed. Englewood Cliffs, N.J., Prentice-Hall [1974] 1062 p. E183.7.B29 1974 327.73.

Ferrell, Robert H. American diplomacy, a history. 3d ed. New York, W. W. Norton [1975] 881 p. E183.7.F4 1975 327.73.

Leopold, Richard W. The growth of American foreign policy, a history. New York, A. A. Knopf, 1962, 848 p. E183.7.L47 327.73.

Major problems in American foreign policy: documents and essays, edited by Thomas G. Paterson. Lexington, Mass., D. C. Heath [1978] 2 v. E183.7.M28. 327.73.

Pratt, Julius W. A history of United States foreign policy. 3d ed. Englewood Cliffs, N.J., Prentice-Hall [1972] 621 p. E183.7.P73 1972 327.73.

Rappaport, Armin. A history of American diplomacy. New York, Macmillan Pub. Co. [1975] 496 p. E183.7.R29 327.73.

Spanier, John W. American foreign policy since World War II. 7th ed. New York, Praeger [1977] 354 p. E744.S8 1977 327.73.

F. ASSOCIATIONS

Additional material may be obtained by contacting the following organizations and government agencies.

American Enterprise Institute for Public Policy Research, 1150 Seventeenth St., NW, Washington, D.C. 20036.
Amnesty International, U.S. Affiliate, 2112 Broadway, Rm. 405, New York, N.Y. 10023.
Center for Strategic and International Studies, Georgetown University, 1800 K St., NW., Washington, D.C. 20006.
Center of International Studies, Princeton University, Corwin Hall, Princeton, N.J. 08540.
Chamber of Commerce of the United States, 1615 H St., NW, Washington, D.C. 20062.
Coalition for a New Foreign and Military Policy, 110 Maryland Ave., NE, Washington, D.C. 20002.
Conference Board, Inc., 845 Third Ave., New York, N.Y. 10022.
Council on Foreign Relations, 58 East 68th St., New York, N.Y. 10021.
Emergency Committee on American Trade, 1211 Connecticut Ave., NW, Washington, D.C. 20006.
Foreign Policy Association, 345 East 46th St., New York, N.Y. 10017.
Foreign Policy Research Institute, 3508 Market St., Science Center, Philadelphia, Pa. 19104.
Institute for Policy Studies, 1901 Q St., NW, Washington, D.C. 20009.
League of Women Voters of the United States, 1730 M St., NW, Washington, D.C. 20036.
Organization for Economic Co-operation and Development, Washington Center, 1750 Pennsylvania Ave., NW, Washington, D.C. 20006.
Overseas Development Council, 1717 Massachusetts Ave., NW, Washington, D.C. 20036.
U.S. Agency for International Development, 320 21st St., NW, Washington, D.C. 20523.
U.S. Arms Control and Disarmament Agency, Department of State Building, Washington, D.C. 20451.
U.S. Department of Commerce, 14th St. Between Constitution Ave. and E St., NW, Washington, D.C. 20230.
U.S. Department of Defense, The Pentagon, Washington, D.C. 20301.
U.S. Department of State, 2201 C St., NW, Washington, D.C. 20520.

Available Government Publications on the 1979–1980 National High School Debate Topic.

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___What Should Be the Future Direction of the Foreign Policy of the United States? 1979.

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___Ambassador Young's African Trip, Hearing Before the Committee on Foreign Relations, Subcommittee on African Affairs, Senate, 95th Congress, 1st Session, To Receive a Report From Ambassador Andrew Young on His Recent Trip to Africa and United States Policy in the Area, June 6, 1977.
1977. 29 p. Y 4.F 76/2:Y 8/2 S/N 052-070-04144-7 $ 1.30

___American/Soviet Trade: A Joint Seminar on the Organizational and Legal Aspects. *Texts of presentations made by American and Soviet representatives at a December 1975 seminar in Moscow.* 1976. 118 p.
C 54.402:Am 3 S/N 003-009-00232-0 1.90

___Arms Control and Disarmament, 1977. *The 17th annual report of the Arms Control and Disarmament Agency, discussing its arms control aims and policies, and detailing efforts and accomplishments in fiscal year 1977.* 1978. 62 p. il.
AC 1.1:977 S/N 002-000-00062-8 2.30

___Arms Transfer Policy, Report to Congress. *Discusses current restraints on United States arms sales to foreign countries, and analyzes the effects of the restraints on our foreign policy, economy, and military posture.* 1977. 107 p. il.
Y 4.F 76/2:Ar 5/18 S/N 052-070-04175-7 2.10

___Background and Status of the Multilateral Trade Negotiations. *Provides background information on these negotiations, summarizes the preparatory work to date, and the basic objectives of the United States and major foreign countries.* 1975. 74 p.
Y 4.W 36:T 67/33 S/N 052-070-02742-8 .90

___ Supplement 1 to the above. 1975. 35 p.
Y 4.W 36:T 67/33/supp.1 S/N 052-070-03972-1 .55

___China's Economy and Foreign Trade, 1977-78. *A brief analysis of the major events and factors affecting the economy and foreign trade of the People's Republic of China. Includes tables providing summary data on major United States exports to China.* 1978. 47 p.
C 57.2:C 44 S/N 003-009-00262-1 $ 2.30

___Commission on the Organization of the Government for the Conduct of Foreign Policy (The Murphy Report). *A report on the Murphy Commission organized to study and recommend changes in the formulation and implementation of United States foreign policy.* 1975, reprinted 1977. 278 p. il.
Y 3.F 76/5:1/975 S/N 022-000-00108-6 2.75

Congress and Foreign Policy: *The following publications summarize congressional contributions to the shaping of United States foreign policy. In examining congressional input into specific foreign policy decisions, these reports also analyze the large issue of the role of Congress and its relation to the executive branch in the formulation of United States foreign policy.*

___ 1975. 1976. 186 p.
Y 4.In 8/16:F 76/975 S/N 052-070-03625-7 1.90

___ 1976. 1977. 222 p.
Y 4.In 8/16:F 76/976 S/N 052-070-04070-0 3.00

___ 1977. 1978. 214 p.
Y 4.In 8/16:F 76/977 S/N 052-070-04653-8 3.25

___Congress and Foreign Policy, Report. *This report examines the characteristics and problems of executive-legislative relations in the area of United States foreign policy and makes a series of recommendations on how these problems can be addressed and how Congress' appropriate role in foreign policy-making formulation can be best insured.* 1976. 26 p.
Y 4.In 8/16:F 76/7 S/N 052-070-03868-3 .45

___Congress, Information and Foreign Affairs. 1978. 103 p.
Y 4.F 76/2:C 76/7 S/N 052-070-04676-7 2.40

___Diplomacy in the 70's, A Program of Management Reform for the Department of State. *Thirteen task forces were assigned the task of collecting data, hearing testimony, and producing recommendations for a comprehensive blueprint to strengthen the Department, to better equip it to supervise and coordinate all foreign policy operations of the United States government. The State Department reformers produced some 500 recommendations. The complex results of the study and the text of the ensuing recommendations to the Secretary of State are available in this publication.* 1970. 610 p. il.
S 1.69:143 S/N 044-000-01295-2 6.60

___Food Problems of Developing Countries: Implications for United States Policy, Hearings Before the International Relations Committee, Subcommittee on International Resources, Food and Energy, House, 94th Congress, 1st Session, May 21; June 3 and 5, 1975. 355 p.
Y 4.In 8/16:F 73 S/N 052-070-03077-1 3.10

High School Debate . . .

Foreign Assistance and Related Programs Appropriations for Fiscal Year 1979, Hearings Before the Committee on Appropriations, Subcommittee on Foreign Operations, Senate, 95th Congress, 2d Session, On H.R. 12931:

___ Part 1, (Peace Corps), Agency for International Development, Department of Agriculture, Department of State, Department of the Treasury, Export-Import Bank of the United States, General Accounting Office, Inter-American Foundation, Public Witnesses, February 22, 27; March 2, 7, 9, 14, 16, 21, 23; and April 5, 1978. 1978. 1088 p.
Y 4.Ap 6/2:F 76/7/979/pt.1 S/N 052-070-04598-1 $ 8.25

___ Part 2, Appendixes. 1978. 550 p.
Y 4.Ap 6/2:F 76/7/979/pt.2 S/N 052-070-04599-0 4.75

Foreign Economic Assistance Programs:

___ Part 1, Foreign Assistance Act of 1948 (Marshall Plan and Related Measures). 1976. 373 p.
Y 4.In 8/16:H 62/v.3 S/N 052-070-03687-7 3.40

___ Part 2, Extension of the European Recovery Program. 1976. 664 p.
Y 4.In 8/16:H 62/v.4 S/N 052-070-03688-5 5.40

___ Government Sponsored Research on Foreign Affairs, 1977 Projects Reported between July 1, 1977 and September 30, 1977. *Lists newly reported research contracts and grants on foreign affairs supported by the Department of State and other Federal agencies. Projects are listed by supporting agency and indexed by subjects, regions, supporting organizations, investigators, and performing organizations.* 1978. 78 p.
S 1.101/10:977/1 S/N 044-000-01684-2 2.40

___ Great Decisions in United States Foreign Policy, Hearings Before the International Relations Committee, House, 94th Congress, 1st Session, April 10, 1975. 1975. 29 p.
Y 4.In 8/16:F 76/3 S/N 052-070-02909-9 .45

___ Human Rights. 1978. 63 p.
S 1.131:5/2 S/N 044-000-01713-0 2.40

___ Human Rights and the United States Foreign Policy: A Review of the Administration's Record, Hearings Before the Committee on International Relations, Subcommittee on International Organizations, House, 95th Congress, 1st Session, October 25, 1977. 1978. 74 p.
Y 4.In 8/16:H 88/28 S/N 052-070-04438-1 2.00

___ Human Rights and United States Foreign Policy. *Discusses the significance of the Carter administration's special efforts, reviewing the successes of international cooperation, appraising the task ahead, and more. Lists international documents on human rights and provides the text of the Universal Declaration of Human Rights.* 1978. 28 p.
S 1.2:H 88/6 S/N 044-000-01711-3 1.40

___Human Rights Conditions in Selected Countries and the United States Response. *This document summarizes the widely varying human rights conditions in each of 19 countries, as well as the United States responses to those conditions.* 1978. 372 p.
Y 4.In 8/16:H 88/30 S/N 052-070-04608-2 $ 4.50

___Human Rights, Hearings Before the Foreign Relations Committee, Subcommittee on Foreign Assistance, Senate, 95th Congress, 1st Session, On Human Rights Issues and Their Relationship to Foreign Assistance Programs, March 4 and 7, 1977. 1977. 104 p.
Y 4.F 76/2:H 88/6 S/N 052-070-04089-1 2.10

___Human Rights in the International Community and in United States Foreign Policy, 1945-1976. 1977. 58 p.
Y 4.In 8/16:H 88/20/945-76 S/N 052-070-04149-8 1.80

___Human Rights Reports, Prepared by the Department of State in Accordance With Section 502(b) of the Foreign Assistance Act, As Amended. *Contains State Department summaries of human rights practices in 82 countries in Asia, Europe, Africa, and South America.* 1977. 143 p.
Y 4.F 76/2:H 88/5 S/N 052-070-03975-2 1.60

___Implications of President Carter's Conventional Arms Transfer Policy, Report. *Examines the pattern of arms transfer transactions which has developed since the President announced his new arms transfer policy on May 19, 1977.* 1977. 50 p. il.
Y 4.F 76/2:Ar 5/19 S/N 052-070-04340-7 1.80

___International Human Rights: Selected Declarations and Agreements. *A selection of the foremost international declarations and agreements on human rights of the past quarter century. Included are: Excerpts from the Charter of the United Nations, the 1948 Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the Convention for the Protection of Human Rights and Fundamental Freedoms, and more.* 1976. 69 p.
Y 4.G 74/6:H 88/2 S/N 052-070-03650-8 .95

___International Protection of Human Rights, The Work of International Organizations and the Role of United States Foreign Policy, Hearings, August 1; September 13, 19, 20, 27; October 3, 4, 10, 16, 18, 24, 25; November 1; and December 7, 1973. 1974. 987 p.
Y 4.F 76/1:H 88/4 S/N 052-070-02297-3 6.45

___International Relations Dictionary. 1978. 48 p.
S 1.2:In 8/30 S/N 044-000-01715-6 2.30

___Living With the Trade Deficit, Report. 1977. 11 p.
Y 4.Ec 7:T 67/15 S/N 052-070-04308-3 .90

___Major Publications of the Department of State: An Annotated Bibliography. *The books, pamphlets, and periodicals listed in this bibliography were selected for their lasting value to persons seriously interested in the development of the foreign policy and international relations of the United States.* Rev. 1977. 27 p.
S 1.71:200/3 S/N 044-000-01665-6 1.30

High School Debate . . .

___New Perspectives on the Persian Gulf, Hearings Before the Committee on Foreign Affairs, Subcommittee on Near East and South Asia, House, 93d Congress, 1st Session, June 6-November 28, 1973. 1973. 227 p. il.
Y 4.F 76/1:P 43/4 S/N 052-070-02150-1 $ 1.75

Persian Gulf:

___ 1974, Money, Politics, Arms, and Power, Hearings Before the Committee on Foreign Affairs, Subcommittee on Near East and South Asia, House, 93d Congress, 1st Session, July 30; August 5, 7, and 12, 1974. 1975. 267 p. il. Y 4.F 76/1:P 43/5 S/N 052-070-02769-0 2.80

___ 1975, The Continuing Debate on Arms Sales, Hearings Before the Committee on International Relations, Special Subcommittee on Investigation, House, 94th Congress, 1st Session, June 10, 18, 24, and July 29, 1975. 1976. 261 p. Y 4.In 8/16:P 43 g/2/975 S/N 052-070-03212-0 2.90

___Reports on Human Rights Practices in Countries Receiving United States Aid. *Prepared by the Department of State, in accordance with sections 116(d) and 502B(b) of the Foreign Assistance Act of 1961, as amended. These reports cover those countries receiving economic assistance under the Foreign Assistance Act of 1961. It is not a worldwide survey and does not include reports on numerous countries with serious human rights problems.* 1979. 706 p.
Y 4.F 76/2:H 88/9 S/N 052-070-04831-0 5.25

___Rhodesian Sanctions Bill, Hearing Before the International Relations Committee, Subcommittee on Africa and International Organization, House, 95th Congress, 1st Session, On H.R. 1746, February 24, 1977. 1977. 68 p. Y 4.In 8/16:R 34/977 S/N 052-070-03963-9 .85

___Shifting Balance of Power in Asia, Implications for Future United States Policy, Hearings Before the Committee on International Relations, Subcommittee on Future Foreign Policy Research and Development, House, 94th Congress, November 18; December 10, 1975; January 28; March 8; April 7; and May 18, 1976. 1976. 236 p.
Y 4.In 8/16:As 4/2 S/N 052-070-03684-2 2.20

___Status of Human Rights in Selected Countries and the United States Response. *This booklet contains reports on human rights conditions in 15 countries, including Cambodia, North Korea, Vietnam, and Russia, and the United States position.* 1977. 79 p.
Y 4.In 8/16:H 88/21 S/N 052-070-04150-1 1.90

___They Know How, An Experiment in Development Assistance. *Reports on the Inter-American Foundation's experiment in responding to Latin and Caribbean social change initiatives.* 1977. 175 p. il.
Y 3.In 8/25:2 K 76 S/N 022-000-00137-0 2.50

___Trade Debate. Rev. 1979. 28 p. il.
S 1.2:T 67/6/979 S/N 044-000-01717-2 1.30

___	Trade Deficit: How Much of a Problem? What Remedy? Hearing Before the Joint Economic Committee, Subcommittee on International Economics, Congress, 95th Congress, 1st Session, October 11, 1977. 1978. 101 p. il.	Y 4.Ec 7:T 67/6	S/N 052-070-04536-1	$ 2.30
___	Trade of the United States With Communist Countries in Eastern Europe and Asia, 1975-1977. 1978. 31 p. Issued with perforations.	C 57.11:78-32	S/N 003-000-90618-3	.80
___	Trading With the Enemy: Legislative and Executive Documents Concerning Regulation of International Transactions in Time of Declared National Emergency. 1976. 684 p.	Y 4.In 8/16:T 67	S/N 052-070-03757-1	2.75
___	United States and the Third World. *A State Department analysis of the prospects for the "Third World"—the less developed countries of Asia, Africa, and Latin America—in such areas as population control, energy, trade, and agricultural development. Also discusses U.S. relations with the Third World.* 1976. 65 p.	S 1.71:301	S/N 044-000-01617-6	1.05
___	United States Arms Sales to the Persian Gulf, Report of a Study Mission to Iran, Kuwait, and Saudi Arabia, May 22-31, 1975. 1976. 33 p.	Y 4.In 8/16:P 43 g/976	S/N 052-070-03172-7	.75
___	United States Corporate Interests in Africa, Report. *This report analyses the impact of international credit in South Africa, surveys the labor practices of American firms doing business in South Africa, and reviews the role of United States corporations in relation to the current challenges to apartheid.* 1978. 232 p. il.	Y 4.F 76/2:Af 8/12	S/N 052-070-04375-0	3.25
___	United States Foreign Energy Policy, Hearings Before the Joint Economic Committee, Subcommittee on Energy, Congress, 94th Congress, 1st Session, September 17-19, 1975. 1976. 75 p.	Y 4.Ec 7:En 2/9	S/N 052-070-03275-8	1.25
___	United States International Trade Policy and the Trade Act of 1974. 1976. 39 p. il.	Y 4.F 49:T 67/35	S/N 052-070-03190-5	.75
___	United States Trade With Major World Areas, 1971-1977. 1978. 90 p.	C 57.11:77-12	S/N 003-000-90631-1	.80
	World Military Expenditures and Arms Transfers:			
___	1965-1974. 1976. 76 p. il.	AC 1.16:965-74	S/N 002-000-00054-1	1.80
___	1966-1975. 1976. 85 p. il.	AC 1.16:966-75	S/N 002-000-00058-0	1.50
	World Military Expenditures and Arms Transfers - con.			
___	1967-1976. 1978. 168 p. il.	AC 1.16:967-76	S/N 002-000-00063-6	3.50